

ENTREPRENEURSHIP MANAGEMENT

Unit Structure

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1.1 INTRODUCTION

The word entrepreneur has an interesting definition history and it stems from the French word *entreprendre* which refers to ‘undertake’ *i.e.*, individual who undertake the risk of new enterprise. Richard Cantillon of France used the word entrepreneur, in 1725 A.D. as “the person who bears the risk and faces the uncertainty of an activity”. He expressed that an entrepreneur is different from a person who supplies capital.

Adam Smith (1776) described the entrepreneur as an individual who forms an organization for commercial purpose—who is a capitalist.

Jean Baptiste Say (1803) considered deployment of factors of production as the role of entrepreneur. This French economist said, “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.” He said that “an entrepreneur is the economic agent who unites all means of production, the labour force of the one and the capital and the land of the others and who finds in the value of the products which results from their employment, the reconstitution of the entire capital that utilizes and the value of the wages, the interest and the rent which he pays as well as profit belonging to himself.”

The word “entrepreneur” has its origin in the French word *Entreprendre*, which means “to undertake”. The early Frenchmen who led military expeditions were called entrepreneurs, It was Cantillon, the French Economist, who first applied the term in the eighteenth century to a merchant who purchased the means of production to combine them effectively into saleable products. J.B. Say, another French Economist, projected the entrepreneur as a person who organised the business activity consisting of production and distribution. John Schumpeter gave

considerable importance to entrepreneurship in the process of economic development of a country. Accordingly, innovation and entrepreneurship in the initial stages of the development of a business activity is very crucial to the economic development of a country. In fact, entrepreneurship, as such is evident only in the initial stages: not in the later stages of the life of a business venture. To Arthur Dewing Stone, the entrepreneur is the promoter of the business, a person who conceptualises an idea and gives it a concrete shape. Danhof stresses decision making functions of an entrepreneur in popular parlance a distinction is often made between an entrepreneur and a manager. The entrepreneur is understood as a person who owns the business which he has started (often a small), bears risks involved in the process of starting it and in running it, innovates and provides leadership to the venture he runs. He is so attached to the business venture that the progress of the business is intricately linked with his own personal development. A manager is understood as a person who works for a master, who has a professional approach to getting things done and who ensures that the enterprise build up by the entrepreneur runs successfully in attaining the goals set by the promoter.

1.2 MODERN CONCEPT OF ENTREPRENEUR

An entrepreneur may be defined as an individual who intends to add value to the economy by creating a new business venture through effective use of his knowledge, passion, dreams and desires.

An entrepreneur is a person who evaluates the new situation in the environment and directs the making of such adjustments or alternations in the economic or manufacturing systems as he thinks necessary for achieving desired results.

In recent times, the term entrepreneurial management is often used to signify that even managers working for master can (and should) innovate and take decisions involving risks and uncertainties in the same way as entrepreneurs are supposed to do. Only then will the organisations they belong to will grow. And to bring in a sense of involvement and commitment on the part of managers working in corporate organisations systems of compensation and rewards like stock option plans are created to evoke from the managers the right responses through such incentives.

Definitions of Entrepreneur :

Different authors have given different definitions of entrepreneur. Some of the main definitions are given below :

- **American Heritage Dictionary**, defines entrepreneur as “a person who organises, operates and assumes the risk for a business venture.”
- **Richard Cantillon**, described the entrepreneur as “an agent buying and selling goods at uncertain prices.”

- **J.B. Say**, defined an entrepreneur as “the economic agent who unites all means of production, the labour, the capital or land and earns profit. He has compared entrepreneur with a farmer.”
- According to **Peter F. Drucker**, “Entrepreneurship is neither an art nor a science, it is a process. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed what constitutes knowledge in practice is largely defined by the ends, that is by the practice.”
- **A.H. Cole**, described, entrepreneurship as the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organise a profit oriented business unit for the production or distribution of economic goods and services.”
- According to **Joseph A. Schumpeter**, “Entrepreneur is a person who foresees the opportunity and tries to exploit it by introducing a new product, new method of production, a new market, a new sources of raw materials or a new combination of factors of production.”

Entrepreneur is an individual or group of individuals who tries to create something new, searches new opportunities, bears risk, unites various factors of production (such as land, labour and capital), carries innovations and from his skill and farsightedness, faces unforeseen circumstances and thereby earn profit.” He is basically an innovator, an organisation builder and a risk taker.

When an entrepreneur starts a new business, he is filled with enthusiasm, uncertainty, frustration, anxiety and fear of events of the future. There is a very high failure probability of the enterprise due to low sales rate, cut throat competition, insufficient financial resources, poor planning and forecasting by the entrepreneur, lack of the knowledge of management and its functions etc. It will be a very difficult decision for a person to go for entrepreneurship in the time of ‘efficient in all respects’ Multi-National Corporations or MNCs, since small-scale enterprise can’t face tough competition with the MNCs.

From the above discussion, we may conclude that “An Entrepreneur is a person who detects new opportunities, evaluates them, gathers all factors of production, innovates, bears the risk of loss and uncertainties and with the application of his skills earn profit from his venture.”

1.3 CHARACTERISTICS OF AN ENTREPRENEUR

- **An Individual or Group of Individuals:** Entrepreneur may be an individual or a group of many individuals. Present age belongs to large business houses and mass level of production. To commence an enterprise on a very large basic, the capital or skills of a single individual is not sufficient. A group of individuals gathers, contributes their share of capital and resources and starts a business enterprise.

- **Need for achievement:** It is the prime psychological drive that motivates the entrepreneur. His desire to excel in his venture and to achieve desired goal. As a high achiever, he competes with his rivals in the venture field as well as with his own previous performance.
- **Independence or autonomy:** Although there are various motivations for venturing out alone, the most frequent reason for becoming an entrepreneur is the desire for independence or autonomy—not wanting to work for anyone else. This desire to be one's own boss ignites a fire in the heart of an entrepreneur to accept all social, psychological, financial, and technological risks and to work hard.
- **Risk Bearer:** Entrepreneur has the risk bearing capacity. In fact it is the characteristics of risk bearing that distinguishes an entrepreneur from a manager. An entrepreneur is a manager but he has the distinction of performing risk bearing function. A manager also does more or less the same thing but he does not take risks.
- **Innovation:** An entrepreneur is basically an innovator by nature. He is always in search of new ideas and new opportunities. He tries to outshine others by taking initiative in doing new things i.e., exploring new products, new markets, new raw materials, new methods of production, etc.
- **Goal Oriented:** Entrepreneur is goal oriented. He gets happiness by setting and striving for goals one by one. Reaching one goal set by entrepreneur will lead to setting up of another goal.
- **Decision-making:** An entrepreneur is a rational decision maker. He has to take several decisions to put his business idea into a reality. He recognises an idea i.e., a product, service or market. He has several alternatives before him. He has to make a choice between them. This involves decision-making as to choose the best alternative which may suit him and give maximum profit. For example, he has to decide what is to be produced, how is to be produced, where to be produced and when to be produced etc.
- **Self-confidence:** An entrepreneur has high degree of self-confidence in achieving his goals. He has the capacity to face extraordinary and unforeseen circumstances as and when they arise.
- **Initiative:** An entrepreneur always takes initiative. He spends a large portion of their time in thinking over finding out new or novel ways of doing things differently finding out a new raw material, a new product, a new method of production, a new style of advertisement, a new style of packaging, and so forth. While taking such initiative, entrepreneurs duly keep in mind the needs and requirements of the customers, changing tastes and fashions, changing life-styles and attitudes, etc.

- **Motivator:** An entrepreneur is a motivator. He motivates his workers by giving them incentives, and creation of team work in order to get their wholehearted cooperation. He is able to influence people in the new business unit in the way that they will strive willingly and enthusiastically toward the achievement of unit's goals.

- **Human Relations Ability:** An entrepreneur possess sound human relations ability to deal with his employees, customers, suppliers, creditors etc.

- **Economic Planning:** Planning is an activity of a highly ubiquitous character. Every action of an entrepreneur is well planned as it is evident from the fact where there are production plans, sales plans, financial plans, purchase plans, research and development plans and so on. Without proper business planning the affairs of any business enterprise are likely to be haphazard.

The concept of entrepreneurship emerged in the areas of business and finance in the 18th century. Before this the concept was used in engineering and military services only. Since then various economists and socio-psychiatric scholars have expressed their views in this regard. Nevertheless, they are unanimous about the exact meaning of the term. William Bongo writes, "The matter of entrepreneurship has always been confusing." As a result of the confusion, entrepreneurship have been used in different terms. The meaning of entrepreneurship changes with the stages of the economic development also.

In general terms, entrepreneurship is bearing risks of various types inherent in business, and the ability and tendency of facing uncertainties and challenges. In modern times, entrepreneurship is establishing new enterprise, ability to control and direct and the venture capability of making new changes and improvement in the business enterprise. In this sense, entrepreneurship is a quality of leadership and innovations by which higher profits and goals can be achieved. Entrepreneurship is adoption in dynamic environment and ability of activating creative and innovative ideas and plans.

Definitions of Entrepreneurship:

- **According to Prof. Mussel Man and Jackson:** "Entrepreneurship is to start a business and put money, times and efforts into it to make it a success, by bearing risks."

The above definition has not included innovation in the sphere of entrepreneurship, so, the definition is incomplete in the context of an underdeveloped economy.

- **According to Prof. Rio and Math:** "Entrepreneurship can be described as creative and innovative response to the environment." This definition can be said modern and dynamic. It stresses on innovation and dynamic. It stresses on innovation and creativity. It says that

entrepreneurship is the competence to adopt changes, and creative ideas according to the changing environment.

- **According to J. E. Stephanie:** “Entrepreneurship is risk bearing capacity, organizational ability and will for diversification and innovation.” This is another definition which can be said complete. It has included risk-bearing diversification and innovation as well as ability to organise in the main functions of the entrepreneurship.
- **According to H. W. Johnson:** “Entrepreneurship is composition of three elements, invention, innovation and adaptation.”

Adaptation of new ideas and techniques, invention and innovation are stressed upon in this definition. Adaptation is the key word which indicates towards the dynamic nature of the entrepreneurship.

- **According to F. H. Frenz:** “Entrepreneurship is organisation and co-ordination of factors of production into one production unit. Entrepreneur is a higher notion than a manager. He is both innovator and promoter.”
- **According to Peter F. Drucker:** “Maximisation of opportunities is meaningful in business, indeed a precise definition of the entrepreneurial job.” The definition of Drucker is more abstractive in nature than any other definition. He says that entrepreneurship is nothing but maximisation of opportunities. It can maximise business opportunities as well as the profits by making resources productive, innovating, adopting new ideas and changes, and so bearing risk, sometimes inventing and diversifying the product. Indeed, this is the true meaning of entrepreneurship.
- **According to Richman and Copen:** “Entrepreneurship implies more creative, external or open system orientation. It involves innovation, risk bearing and relatively dynamic leadership.”

The above definition links business to be environment. It assumes it as an open system and call entrepreneur a dynamic leader of the society. In the definition, entrepreneurship is said to be the central point of social changes.

1.4 NATURE OR CHARACTERISTICS OF ENTREPRENEURSHIP

- **Risk-bearing capacity:** The entrepreneur starts facing uncertainties and several types of risk right from inception of business. The business environment is dynamic and ever changing. The entrepreneur risks his capital when he invests in the business. So, the entrepreneur have the capacity to bear risks and face uncertainties as it is unknown what is hidden in the pistil of the future.
- **Entrepreneurship Trait:** Entrepreneurship is not a trait. The success of the enterprise depends on the decision-making and other capabilities of

the entrepreneur. So, a person develop these capability in himself. It is often said that entrepreneurs are not born. They can be made by training and development.

- **Creative Activity:** Entrepreneurship is basically a creative activity. Entrepreneur searches for new opportunities, new ideas, new techniques etc., think creatively and execute new ideas in his enterprise. It is entrepreneurship which encourages creativity and changes in the society.
- **Result of Changes:** Entrepreneurship is the result of social, political, scientific and technical changes occurring in the environment. It is not merely an economic event or activity. The changes in social values, traditions, education, science, techniques, population and government policies are forcing people in the society to change their approaches, thinking and opinion, which is again inspiring people to adopt entrepreneurship.
- **Creation of a Resource:** Entrepreneurship transforms materials into 'resource'. Therefore, the entrepreneurship is the process of developing 'utility', 'economic value' and 'capacity of wealth creation'.
- **Essential in all Businesses and Economies:** Entrepreneurship is essential in all businesses and all economies, whether big or small, developed or developing, since, the basic functions of the entrepreneurship, innovation risk bearing, adaptation to changes etc are there. It should be borne in mind that entrepreneurship exists in every society and economy. Without entrepreneurship there will be no growth of the economy.
- **Essential in Every Activity:** Entrepreneur is needed in every area of life. A person can succeed in every field by adventurous nature and entrepreneurial behaviour. Education, research, medical, politics, military or games, all needs bearing risks, innovation or leadership to succeed. Drucker has said, "Entrepreneurship is by no means confined solely to economic institutions."
- **Low Risk:** Entrepreneurship carries a greater level of risk. But technological and socio economic environment have made entrepreneurship less risky than ever. Entrepreneurship does not carry a very high level of risk. Infact, if the enterprise is well managed and well planned, then the entrepreneurship becomes a low risk game.
- **Ability to Innovate:** Entrepreneurship is an innovative activity. It enables application of creative ideas. The entrepreneur adopts new ideas, new techniques, new production system, new management concepts, new markets, new products and new procedures for more satisfaction and better services to the customers and more profits to the enterprise.
- **Knowledge-based:** Peter F. Drucker says, "Entrepreneurship is neither a service nor an art. it is a practice based on knowledge." The entrepreneur achieves a high place by his knowledge and understanding of

thing. The quality of enterprise comes in a person after long experience and practice.

- **Result-Oriented Behaviour:** Enterprise can't get success unless the results are favourable. The entrepreneurship stresses on results and not on the fate. Entrepreneurs believe in getting good results through their efforts and hard work. They achieve their goals by their ability of making sound decisions, solid planning and goals-oriented behaviour.

- **Environment-Oriented Activity:** Entrepreneurship is an external and open environment-linked system. Entrepreneurs produce and take risks keeping social, economic, political and material factors of environment in view. Joseph Schumpeter said in this context, "It is a creative response to every external situation."

- **Process of Identity Transformation:** Entrepreneurship is the process of identity formation and role transformation. A person can't be an entrepreneur by merely adopting innovation, unless he involves in that activity and his identity is established as an innovator. In other words, the activity should be recurring or continuous in nature. Doing one transaction does not come under the purview of entrepreneurship.

Udai Parikh and Nadkarni have this view, "Entrepreneurship is not only adopting new activity or behaviour, it is transformation of personality and establishment of a new identity by himself."

- **Business-Oriented Tendency:** Entrepreneurs by their nature are business oriented and so is entrepreneurship. Entrepreneurship encourages and inspires the people to be an entrepreneur and establish a new business enterprise. Entrepreneurship motivates people to search for new business opportunity, establish a new business enterprise and make profit by taking risk and putting his monetary and non-monetary assets on stake. This tendency makes the establishment of new business and industries possible in the country.

- **Professional Activity:** Entrepreneurship is emerging as a profession in developed countries like medical, law and engineering. Entrepreneurial skills are being developed by training and education like management skills. The governments of developing countries have started programmes and schemes to encourage entrepreneurial aptitude in people. Many entrepreneurial development institutions and centers are being established in these countries.

- **Management is the basis of Entrepreneurship:** Management is the basis of all the entrepreneurial decisions. Entrepreneur brings improvement and changes in the enterprise through management. Ducker writes, "Entrepreneur manager has become an essential part of the functions of the management today."

- **Based on Principles, not on Intuition:** Entrepreneurship is based on certain principles, concepts and particular fields of knowledge. It is not

intuition based on knowledge and principles, since this is the age of 'scientific management'. An entrepreneur need to have the knowledge of subject like economics, statistics, law sociology and psychology etc. in order to achieve success.

- **Entrepreneurial Skills:** It is often stressed that entrepreneurship naturally exists in every organisation, but this is not correct. Every person and organisation have to put efforts very carefully. They have to bring entrepreneurial skills in themselves to get success. Drucker has opined, "Entrepreneurs assumes business as a duty. They are disciplined towards their enterprise and put all their efforts for its success."

Entrepreneurship is not only a work, business or profession but it is a life style also. Every person chasing a goal must be creative and imaginative for its accomplishment. he should have the ability to plan, make rational decisions and get them applied.

1.5 TYPES OF ENTREPRENEURSHIP

- **Imitative Entrepreneurship:** This type of entrepreneurship is imitative in nature. It presents the existing product in an innovative manner, takes advantage ideas of other firms' and simply brings to bear the weight of corporate muscle to control markets.

For instance the Japanese have studied American products, found ways to improve on those products and produced them at lower costs and exported them to American markets. This type is very often called espionage.

Consumers are very much benefited, due to the cheap availability of existing costly products or services. Thus, products become commercially viable because of improvement in quality at lower price.

- **Incubative Entrepreneurship:** In this type, new ideas materialise. For instance **new venture development unit** that is often provided seed capital and corporate resources and functions almost independently and is semi-autonomous in implementation of responsibility from inception to commercialisation.

- **Opportunistic Entrepreneurship:** In this type the managers are given the responsibilities and they do not report through existing management hierarchies but enjoy a semi-autonomous work environment. This gives scope for innovation.

- **Administrative Entrepreneurship:** Researchers are supported while providing them with corporate resources for making their ideas commercial realities. Thus, inventions are enthusiastically led by a champion and the organisation encourages the development of the new product.

- **Acquisitive Entrepreneurship:** This type is a step further from traditional method of growth and development. Here, we find alternative growth strategies through mergers, acquisitions, joint ventures, etc.

Essentials of a Successful Entrepreneur:

- **Imaginative:** Creative thinking and imagination are important entrepreneurial qualities since innovation comes with these qualities. An imaginative entrepreneur is always in search for new ideas and is a competent reader of the future events which are uncertain and poses the maximum risk before the enterprise. Entrepreneur plans to profit and to avoid or mitigate risks using his imaginative capabilities and execute these plans for realisation of the profit, sales budget etc. Imaginative entrepreneur can smell the future problems and make plans in advance to tackle those problems.
- **Sharp Memory:** Successful entrepreneurs always have a memory sharper than people in general. Every event of the recent past should be in his mind when he is making any important decision as regards the organisation. He has to meet several people, take numerous decisions and keep a score of plans, reference etc. in his mind, which are necessary for accurate decision-making and success of the organisation.
- **Self confident:** Entrepreneur should be confident that what he is doing or whatever he is going to do in future is right, but he should keep a place reserved too, i.e, he should be very confident but his actions should not fall prey to over confidence. Emerson has said, “Self confidence is the secret of success.”
- **Maturity:** A matured entrepreneur performs his duties well and remains honest towards his responsibilities. He is not irritated upon his criticism and maintains his cool while communicating or during conversation with anyone. His thoughts and feelings are filled with maturity.
- **Foresighted:** The entrepreneur can evaluate the events even before they are occurred with the help of his foresight. He can analyse the results of the present action and plans. Foresighted entrepreneur is future oriented, which enables the enterprise to avoid problems which it may face in near future.
- **Dynamic Ideas:** The success of the entrepreneur and the enterprise depends on the ideas or thinking of the entrepreneur also. Conservative approach or traditional ideology proves to be hurdle in the success of the enterprise. Entrepreneur should be a man of dynamic ideas and only then he would be interested in using modern management techniques, latest machineries, plans, and process etc. for his enterprise’s success. Dynamic thinking paves the way for innovation and modernisation in the organisation.
- **Willingness of challenges:** An entrepreneur should have the tendency of accepting new challenges. He should prefer challenging jobs. “Entrepreneur should have the spirit of enterprise (venture).” “One who

chooses challenges between security and challenge is the true entrepreneur.”

- **Optimism:** The entrepreneur should be an optimistic one. He should see failure as a steps towards success. If he does not have this quality than he can't drive his enterprise towards the road of success. A shock of despair creates vacuum in the mind such as paralysis creates in the human body. “So an entrepreneur should always avoid frustration and be optimistic about the future of the enterprise. Only an optimistic entrepreneur can face the risks and uncertainties of a business enterprise. So, pessimism should be a retired word from his dictionary of words.

- **Ambition:** The ambition to do something and get ahead of others must be there. If it's not there in entrepreneur, he can't succeed. David McClelland has called it an 'urge to Achieve'. Andrew Carnegie says “A person who does not hold desire for success and achievement, can't get to the higher goals in his life.” Whether a sportsperson, an artist, a politician or a scientist, all have an urge or desire to achieve, and so they become popular for the field or working area they are in. They can not get ahead of their competitors, if they does not possess desire to do so. It is the same for entrepreneur also. First he should have the desire and then he should work to march past others.

- **Foresightedness:** A successful entrepreneur must have foresightedness. If the entrepreneur is unable to foresee, he will not be alert about the possible uncontrollable factors.

An entrepreneur should have the most forward looking strategy and vision. Today we face some key challenges due to globalisation, liberalisation and privatisation. Hence, the need of the day is constant competition and change. Small changes will not be enough; entrepreneurs will have to transform themselves not once or twice but continuously and many times over. The topmost task of the entrepreneur would be to create a dynamic environment and make dynamism and transformation the permanent organisation culture. Entrepreneurs must also have the ability to “mind your mind”, which means quickly recognising when one is wrong and changing track accordingly. Also the entrepreneur should not be egoistic but should have a sense of humility.

- **Time Management:** A successful entrepreneur must value time. If the entrepreneur is not able to manage time, he will also not be able to complete the project before the deadline. While an entrepreneur seeks to minimise risk to the enterprise, encourages work-life balance, monitors quarter-on-quarter results, engages in long-range planning, cost optimisation, he happens to neglect adherence to strict timeliness for delivering results. This puts enormous pressure and is not surprising if it creates a crisis of identity and confidence. Entrepreneur should be able to manage his time to address all the issues and will not succeed if he addresses issues solely from any one perspective.

- **Technical Management Skill:** A successful entrepreneur must have managerial skill and technical knowledge. If he is not able to manage the resources (human, material, capital, equipment) he will risk losing business. Hence young and emerging entrepreneurs must be able to perform multiple roles and be able to create his own distinctive form of entrepreneurship.

An entrepreneur who has superior technical and managerial knowledge should not neglect soft skills and attitude. He should not be egoistic but should have a sense of humility. The entrepreneur's inexperience may result in a crisis but an intelligent person is he who would overcome this drawback by mustering the emotional and intellectual equity of the people and also gaining their trust and commitment to the vision. "Entrepreneurship is all about plugging into the minds and hearts of people". It is about rallying them around to a compelling and exciting vision of the future. It is about upping the quality of imagination of the organisation.

It is about encouraging a spirit of intellectual ferment and constructive dissent so that people are not bound and are given space and free play. Entrepreneurs should hence build highest level of empathy and trust their people. So the important lesson in entrepreneurship is perhaps 90 percent leadership and only about 10 percent managing. Entrepreneur of today should have knowledge if not experience of all the arenas.

- **Risk-bearing Capacity:** In any venture there is some amount of risk. However you may try to take the necessary precautions and measures and only take calculated risks; yet there exists some degree of risk due to uncertain nature of environment. Anything untoward may happen and if you are not able to cope with the ups and downs and not able to do crisis management you will fail.

To meet the industry's requirement and create the world-beating requirement the entrepreneur must aim for making the big leap. But this will not happen by itself; at critical times there should be radical leaps. These leaps may sound unrealistic but they are mandatory for the survival of the enterprise.

- **Decision-making:** If the entrepreneur is not able to make quick or spontaneous decisions he will also not be able to work with confidence. Infact due to the competitive nature of small business one delayed decision made by the entrepreneur may lead to years of rectification.

A successful entrepreneur is one who has come to terms with the new reality and adopted new methods of communication and information technologies. Net trading has opened door for service sector.

The technology is changing daily but the minds will change by the generation. Those entrepreneurs who would be able to make decisions rightly and make the leap sooner would emerge the winners and benefit the profits of their better positions.

Importance and Significance of Entrepreneurship: Entrepreneur has to play an important role in the economic growth of a country. The mobilisation of human and physical resources of a country is a major function of an entrepreneur. He utilises these resources using innovation as an important tool. He engages in some activities which helps in the generation of employment and the opportunities. He is responsible in providing employment to thousand of persons. An entrepreneur can face-lift a backward on rural area by establishing his business unit there. He can send his products to foreign countries producing quality goods. These exports by entrepreneurs can balance the trade or the payments. Evident that an entrepreneur is the main element accelerating economic growth of the country.

One of the important inputs in any economic development of a country is entrepreneurship. More the entrepreneurship activity better the development. Entrepreneurship is the life blood of any economy and it applies more to a developing economy like India. The areas of development are:

- Taking to higher rate of economic growth by creation of value.
- Speed up the process of industrial use of the factors of production.
- Creation of employment opportunities.
- Dispersal of economic activities to different sectors of economy and identifying new avenues of growth.
- Development of backward and tribal areas.
- Better social changes.
- Improvement of the standard of living of different weaker sections in the society.
- Bring socio political change in the society.
- Develop technological know-how.
- Improve culture of business and expand commercial activities.
- Entrepreneurship act as a change agent to meet the requirements of the changing market and customer preferences.
- Develop a culture of achievement orientation.

Entrepreneurship is the primary element of the socio-economic process in a country. The origin and development of entrepreneurship takes place in socio-economic environment. Whereas on one side socio-economic environment provides an area and opportunity to the entrepreneur for working and development, at the same time on another side suitable economic environment provides necessary resources to the entrepreneur on account of which the entrepreneur continue to proceeds on the

development path. Several socio-economic problems like backwardness, ignorance, poverty, illiteracy, hunger, unemployment, low standard of living etc. can be solved through the development of entrepreneurship. Economic development of a country is a complex phenomena, which is dependent upon socio-economic environment. Role of socio-economic environment can be studied under the following two heads:

Social Environment in Entrepreneurial Development:

An entrepreneur is born in society. He performs different types of activities as a member of the society. Without entrepreneur, the existence of the society is nil. Different social factors, such as, caste, creed, community, religion, family background, social values, ideals, educational, background, occupational back group, customs, traditions, technical development and innovations, motivation, managerial ability, initiative, professional background, training facilities, migration thinking pattern, 'self-confidence etc. play vital role in the development of entrepreneurship. Social process effects the habits, outlook, thinking, method of living, ambitions of a man considerably. The entire development and total personality of an entrepreneur takes place in the society. Society provides necessary field to the entrepreneur for the development of entrepreneurial qualities, such as, self-confidence, initiative, freedom, desire to earn prestige, use of opportunities, desire for achievements and capacity to face challenges and risks etc. History also supports this view. For example, Marwaris, Gujaratis, Baniyas, Mahajan etc. are found in trade, business and business in every concern of the world. Entrepreneurial talent is found in the blood of certain castes, families and communities.

For example, Birla, Tata, Dalmia, Modi, Kirloskar, J.K. etc. all have family traditions of being engaged in trade, commerce and industry. Further, Gujaratis, Marwaris, Sikhs etc. have high migratory character as they can be seen almost in every corner of the world in search of economic activities and have become most successful entrepreneurs.

Economic Environment in Entrepreneurial Development:

Economic environment occupy an important place in the entrepreneurial development. Economic environment refers to all those factors which provide necessary resources to the entrepreneur, such as, capital, land, equipment, material, manpower, machinery, building, technical-know-how, market, investment opportunities and other needed inputs. The dependence of trade, business and industry on the economic environment is total. For example, the more is the technical know-how of the entrepreneur, the more and better shall be production as to quantity, quality and economical. Reduction in the cost of production will lead to wide market and increase in profits.

Moreover, economic stability, healthy, competition, sound working conditions, availability of trained labour force, healthy investment and

saving environment, stability of prices, availability of cheap finance, high level of income etc. also affects the entrepreneurial development.

Economic System and its Impact on Entrepreneurship:

We can broadly classify the economic systems into : (a) Capitalist, (b) Socialist and (c) Mixed economy.

Capitalistic Economy: In a capitalistic economy the means of production are privately owned; there is free competition, free access to any industry. Any individual can enter into any field where he perceives a business opportunity. Competition and survival of the fittest is the rule. There is very little intervention by the State. In such an environment, a manufacturer who produces what the society wants at prices which the members of the society are willing to pay, will be able to gain a foothold, and survive. An entrepreneur who is not able to pass this crucial test will be left behind. However, under this kind of system, it is not normal for the bigger units in an industry to dominate over the smaller ones. In the process, the smaller units often get crushed and go out of business. Failure of small business units is a real problem in the U.S.A. Therefore, a number of specialised agencies have been set up in the U.S.A. to help the small units to stand the competition from the larger ones in the market place. Of course, there is no direct state intervention in the matter of regulating the formation and running of these businesses.

The essence of the capitalist system is freedom. Entrepreneurs who survive in such a system acquire recognition and social status. It is not unusual for one-time small businesses to grow at a very fast pace and to eventually dominate the market place. IBM, for example, had to face competition from an unknown unit, Apple Computers. May be system arouses the entrepreneurial spirit latent in the individual and spurs him to work hard. Many large U.S. Corporation were started by single individuals who now hold the reigns of the empire they were responsible to establish.

Socialist Economy: In a Socialist economy, the means of production are owned and controlled by the State. The allocation of the means of production is done by the State by some centrally administered machinery which monitors the social needs and ensures that resources flow where the needs be properly met. Very little of private enterprise or entrepreneurship is seen in such economies.

Mixed Economy: In a mixed economy we have a dominant public sector through which the State controls the economic activity, e.g., steel, heavy industry, aviation, banking, insurance etc. There is also a large private sector as in agriculture, services, industries etc. Even in the private sector, the state could play a positive role by :

- reserving certain areas for the small scale units
- providing incentives and concessions so essential, particularly in the initial stages of a business venture

- providing markets for their finished products and assisting these units in obtaining scarce raw materials
- ensuring that the larger units do not dominate over the smaller ones.

The mixed economy, such as we have in India, provides a very favourable climate where entrepreneurship can be nourished very well. There is an umbrella of protection available until the small scale unit that is launched is able to take off and stand on its own.

1.6 SUMMARY

Entrepreneur is a person who perceives an idea of establishing a ‘ new business enterprise and then bring together manpower, land, equipment, material and arranges necessary capital needed for business. He is a person with vision, original idea, decision making ability and courage to undertake risky projects. The entrepreneur is an innovator who brings in new ideas, new processes and encourages his team in new activities.

Entrepreneurship is “a creative and innovative response to the environment”. Entrepreneurship is a process of doing something new, and innovative. We can find entrepreneurship in all such occupations as: service, trading, industry, academics, agriculture, or professions. Entrepreneurs are around us in our offices, our factories, our educational institutions. Entrepreneurs are known for doing new things or doing things in a new way. Entrepreneurs have “the ability to see and evaluate business opportunities, to gather the necessary resources to take advantage of them and to initiate appropriate action to ensure success”. They are found in all professions like banking, education, medicine, engineering, architecture, information technology, supply chain management and even in outsourcing business.

Entrepreneurship development passes through the following stages in the process of growth and development:

- The entrepreneur perceives an opportunity and wishes to strive to make the most of it: in the process he desires to meet his personal goals.
- He translates the opportunity into a product idea or a service idea, which he could offer to the society.
- He analyses the various things required to be done to concretise the concept or idea, outlines the steps required and makes a tentative plan of action.
- He collects a team and along with his teammates, he puts up a project or venture.
- He markets the project to the government agencies, financial institutions and others to get their response and also support and assistance.

- He goes about collecting the resources men, money, machine and materials necessary to commence the venture.
- He designs and creates the organisation structure that will implement his idea. He has to sell this structure to the first set of key personnel that will assist him in running the venture.
- He will make “trial runs” and “experiments” till he feels confident that the enterprise has been successfully launched and will take off.

All the above stages have to be gone through within the entrepreneurial environment that we have just discussed. And remember also that the environment is not static; the entrepreneur has to grapple with an extremely dynamic environment. The environmental factors that are favorable at one stage of the development might suddenly become hostile, causing tension and even frustration in the mind of the entrepreneur. Reacting quickly to environmental changes is one of the attributes of a successful entrepreneur.

The wheel of economic growth is propelled by entrepreneurs of the country. He can change the face of the country and the economy by contributing through his resources and efforts as an innovator. He also channelises the natural, economic and technical resources of the country towards the right direction, the direction of growth, development, and high productivity.

1.7 QUESTIONS:

- Define Entrepreneurship. Discuss its characteristics.
- “An entrepreneur is a person who creates an ongoing business enterprise from nothing.” Explain. Describe the main functions of an entrepreneur.
- Which functions does an entrepreneur perform? Explain in detail.
- Explain the functions of an entrepreneur right from the establishment stage of the enterprise.
- Define entrepreneur and explain the essentials of a successful entrepreneur.
- Explain the Importance and significance of Entrepreneurship.



ENTREPRENEURSHIP DEVELOPMENT

Unit Structure

2.1 Introduction

2.2 Evolution and Growth of Entrepreneurship

2.3 Stage of Entrepreneurship Development

2.4 Relationship between Entrepreneur and Innovation

2.5 Psychological Theories of Entrepreneurship

2.6 Summary

2.7 Question

2.1 INTRODUCTION

Entrepreneurship is the process of starting a new businesses generally in response to identified opportunities. Entrepreneurial activities depend on the type of organization that is being started. Entrepreneurship ranges in scale from solo projects (even involving the entrepreneur only part-time) to major undertakings creating many job opportunities. Many "high-profile" entrepreneurial ventures seek venture capital to build the business. Investors generally seek returns of 20-30% and more extensive involvement in the business. Many kinds of organizations now exist to support would-be entrepreneurs, including specialized government agencies, and even NGOs.

2.2 EVOLUTION AND GROWTH OF ENTREPRENEURSHIP

The understanding of entrepreneurship owes much to the work of economist Joseph Schumpeter. Schumpeter in (1950), "an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation". Entrepreneurship forces "creative destruction" across markets and industries, simultaneously creating new products and business models. In this way, creative destruction is largely responsible for the dynamism of industries and long-run economic growth. Despite Schumpeter's early 20th-century contributions, the traditional microeconomic theory of economics has had little room for entrepreneurs in its theoretical frameworks (instead assuming that resources would find each other through a price system).

For Frank H. Knight (1967) and Peter Drucker (1970) entrepreneurship is about taking risk. The behaviour of the entrepreneur reflects a kind of person willing to put his or her career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture.

2.3 STAGE OF ENTREPRENEURSHIP DEVELOPMENT

The various stages of development in entrepreneurship are as follows:

- **Earliest Period:** In the earliest period, the entrepreneurship was in its infant stage. The entrepreneur was responsible to establish trade routes. During this time, a common contract provided a loan to the merchant adventurer at a high rate, including insurance. The capitalist was a passive risk bearer. The merchant adventurer took the active role in the trading and bore all the physical and emotional risks. When the merchant-adventurer successfully sold the goods and completed the trip, the profits were divided between the merchant adventurer and the capitalist the former setting only 25 per cent of the profit.
- **Middle Ages:** In the Middle Ages (from 1,000 A.D. to 15th century), the entrepreneurship developed to a level where an entrepreneur performed the roles of both an actor and a manager of large production projects. In such projects, he did not take any risk but merely managed the project using the resources usually supplied by the government of the country. A typical entrepreneur in the Middle Ages was the cleric—the person in charge of great architectural works such as castles and fortifications, public buildings, abbeys (buildings inhabited by monks or nuns), and cathedrals (churches).
- **17th Century:** The connection of risk with entrepreneurship developed in the 17th century with the government to perform a service or to supply stipulated products on a fixed price, and bore the risk of profit or loss resulting out of such contract.
- **18th Century:** The entrepreneurship was first recognised in the 18th century, when Richard Cantillon coined the term ‘entrepreneur’ in 1725 and identified him as a person assuming the risk-bearing function a person who purchased goods at ‘certain’ prices with a view to selling them at ‘uncertain’ prices in future and thereby took a non-insurable risk. In this century, the entrepreneur (risk taker) was distinguished from the capital provider (today’s venture capitalist). One reason for this differentiation was the industrialisation occurring throughout the world. Many of the inventions were developed during this period which were the reactions to the changing world. The inventors developed new technologies but were unable to finance their inventions themselves. For example, Thomas Edison raised capital from private sources to develop and experiment in the field of electricity and chemistry. He was therefore a capital user (entrepreneur), not a provider (venture capitalist). A venture capitalist is a professional money provider who makes risk investments from a pool of equity capital to obtain a high rate of return on the investments.

- **19th Century:** During 19th century, entrepreneurship became a broader concept and **J.B. Say** (1803) emphasised the entrepreneurial functions of bringing together of the factors of production, providing continuing management, and taking risks. He separated profits of entrepreneurship from profits of capital. Similarly, Francis Walker (1876) distinguished between those who supplied funds and received interest thereon and those (entrepreneur) who received from managerial capabilities. Thus entrepreneurs were not usually distinguished from managers. Entrepreneur were viewed mostly from an economic perspective and were thought to be those persons who bring resources together in unusual combinations to generate profits. They were viewed as organisers and operators of an enterprise for personal gain. They also assume the chance of loss and gains consequent to unforeseen and uncontrollable circumstances. It was not necessary for them to invent something. Rather, they adapted and developed new technology in the creation of products to achieve economic vitality.

- **20th Century:** In this century, entrepreneurship was recognised essentially a creative activity consisting in doing innovative things new products new technology or method of production, new raw materials, and new business models using computers, etc. Hence, it was associated with risks financial, psychological, and social such risks are taken to get rewards. According to **Joseph Schumpeter** (1952), “The function of the entrepreneur is to reform or revolutionise the pattern of production by exploiting an innovation or, more generally, an untried technological method of producing a new commodity or producing an old one is a new way, opening a new source of supply of raw materials or a new outlet for products, by organising a new industry.” Thus, the concept of innovation and newness is an integral part of entrepreneurship.

- **21st Century:** In this century the concept of entrepreneurship is related to innovative endeavors. It is concerned with introducing something new in the environment of tough competition. It is the most difficult task of the entrepreneur in today’s complex environment. It may be noted that the range of innovation starts from creating a new product and may cover upto the development of a new distribution system or upto the development of a new organisation structure or upto developing a new business model like computerised office equipments.

The acts of entrepreneurship is often associated with true uncertainty, particularly when it involves bringing something really novel to the world, whose market never exists. Before the Internet, nobody knew the market for Internet related businesses such as Amazon, Google, YouTube, Yahoo etc. Only after the Internet emerged did people begin to see opportunities and market in that technology. The Net trading has created market for outsourcing and service sources.

Factors influencing entrepreneurship: The following factors influence the growth of entrepreneurship.

- **Traditional Ideology:** Traditions prevalent in the society affects the personal life of the people as well as the businesses. Traditional societies does not allow ventures, entrepreneurship creativity or innovation. These societies crushes the progressive and development aptitude in people and so the entrepreneurial spirit.
- **Lack of Entrepreneurial Spirit:** The country whose youth lacks business aptitude, poor Capacity to take risks, absence of creative thinking, and a sentiment to establish businesses, would never be able to develop entrepreneurship. Even the countries or societies have inclination towards jobs or fine arts can not create wealth or form capital.
- **Uneconomic Culture:** Countries have immaterialistic and uneconomic culture not having interest in collection of wealth, asset and capital formation, personal profits, economic activities and production functions. Immaterialistic societies emphasizes upon having limited wants and leading simple lifestyle. Therefore, entrepreneurship remains undeveloped in these countries.
- **Education System:** The education system prevalent in the country leaves great impact on the development and mobility of the entrepreneurs. Countries in which science, technology and engineering are ignored and literature, religion, philosophy, painting, music and fine arts are emphasized upon, are not fortunate enough to get a fair number of entrepreneurs. Development of entrepreneurship faces hurdles in these types of countries.
- **Social System:** Entrepreneurship tendencies gets crushed in the societies in which convertism, religious superstition or casteism are prevalent. The societies having the people interested in their ancestral jobs do not have much of the entrepreneurs since new enterprises are seldom established because people do not get freedom to choose job or work according to their interests and talents. They only follow and continue the family businesses.
- **Resistance Against Innovations and Changes:** The development of entrepreneurship is curtailed in the societies in which innovation is ignored, research and disinvestigation is lacked behind and changes are protested. The lack of scientific and logical approach towards problems does also discourage entrepreneurial tendencies.
- **Unproductive Investment:** The business are starved of capital in the societies in which investment are made mainly in jewellery, leisure buildings or other unproductive assets. Unnecessary show off, extravagance and spending on status symbols regresses the prospects of entrepreneurial development.
- **Bureaucracy:** A prospective entrepreneur had to contact several government agencies and authorities and get their nod for the commencement of the business. This is a proven fact that 'Red Tapism' exists in our bureaucratic system. Dull and lazy bureaucracy's ignorant

behaviour towards these entrepreneurs, projects discourage them. Hard and fast rules, corruption, unnecessary formalities and inefficiency etc. also disappoints entrepreneurs.

- **Lack of favourable Environment:** The development of entrepreneurship is a social process. The development depends on the cooperation of various element or the components of society such as customers, labourers, investors, local community and local authority etc. The development of entrepreneurship is checked due to lack of adequate capital, disinterest of customer towards the product of the enterprise, unskilled labour, lack of government cooperation or modern techniques etc. suppliers also plays an important part in the development of entrepreneurship.

- **Lack of Motivation and Training:** Those entrepreneurs who lacks motivation, inspiration and courage in them to commence or operate a business venture or are indifferent towards their training needs can't do justice with their enterprise and with their entrepreneurial capabilities. Without proper internal motivation and training, the knowledge of the entrepreneur remains at low level, discouraging development of entrepreneur, enterprise and the entrepreneurship.

- **Inadequate Government Facilities:** Entrepreneurship can't flex its wings in the countries in which basic facilities provided by the government are inadequate. Entrepreneurship flourishes in the countries in which government provides adequate basic facilities or incentives to entrepreneurs so that they can work freely. Government policies and programmes do play an important role in this regard also. Adverse Government policy checks developments of entrepreneurship in the country.

- **Monopolistic Tendency:** Big industrialists growth is also a hurdle in the development of entrepreneurship. The expansion of their business umpire is like burial of the small entrepreneurs. These big entrepreneurs uses modern techniques, latest machines and production methods for mass production, so, they enjoys all the benefits of mass production. They produce goods at lower costs in comparison to small entrepreneurs who are deprived of expert services and other facilities which big entrepreneurs are fortunate enough to get. Small entrepreneurs faces a fierce competition from big entrepreneurs which they are not able to win in, since big entrepreneurs uses all tactics to let them behind.

Entrepreneur and Innovation: Innovation is the process of doing new things. Creativity is the prerequisite of innovation. It is the innovation which transfer creative ideas into useful applications. Innovations may be in the areas of new product, new methods of production, opening of new markets, adoption of new technology; creation of new ideas, new source of raw-materials and creation of new type of industry and enterprises. Innovation is the process of putting new ideas into action. Innovation includes the following:

- Adoption of new methods and new technology in the field of production.
- Presenting new product in the market.
- To find out new source of raw-material which has not yet been exploited.
- Doing things that are not generally done in the ordinary course of business.
- New combination of new sources of production.
- Creation of new type of industry and enterprises.
- Creation and develop new ideas.
- Integrating several usage into the product.
- Opening of new markets.
- Optimum utilisation of resources.

2.4 RELATIONSHIP BETWEEN ENTREPRENEUR AND INNOVATION

There is close relationship between entrepreneur and innovation. Entrepreneurship essentially means innovation. Without innovation entrepreneurship is worthless and similarly without entrepreneurship innovation has no value.

According to *Peter F. Drucker*, “An entrepreneur is one who always search for change, responds to it and exploits it as an opportunity. Entrepreneur innovate and innovation is a specific instrument of entrepreneurship. It creates resource because there is no such thing as a resource until man (entrepreneur) finds a use for something and endows it with economic value. *J.B. Say* defined entrepreneurship as improving the yield of resources. *Peter F. Drucker* further defines entrepreneurship as increasing value and satisfaction obtained from resources. Successful entrepreneurs create new values or increase the values of what already exists. They convert a material into a resource or combine existing resources into a new or more productive configuration.

According to *Joseph A. Schumpeter*, “Entrepreneurship is an innovative function. Schumpeter’s concept of entrepreneurship is totally based on innovation. He further added that in a developed economy entrepreneur is that person who produces something new in the economy. Entrepreneurship is doing things that are generally not done in the ordinary course of business. An entrepreneur, through, innovation (i) gives birth to new ideas, (ii) new manufacturing process (iii) new product, (iv) locate new source of raw material, (v) develop new combination of means of production, open new market, which has not yet been exploited etc.

According to *Howard W. Johnson*, “Entrepreneurship is a composition of three basic elements: (i) Invention, (ii) Innovation, and (iii) adaptation.” Among these three, innovation plays a dominating role. The existence of entrepreneur is on account of innovation.

An entrepreneur does things in a new and better way by means of innovation. A traditional businessman working in a routine manner is not entrepreneurship. Entrepreneurship is based on purposeful and systematic innovation. Systematic innovation consists in the purposeful and organised search and in the systematic analysis of the opportunities and such changes might offer for social and economic innovation.

From the above discussions, it is evident that there is a close relationship between entrepreneur and innovation. It is not possible to separate them from one-another as one is neither complete nor useful without the other.

2.5 PSYCHOLOGICAL THEORIES OF ENTREPRENEURSHIP

Entrepreneurship is a psychological process. According to psychological concept, psychological factors are the primary source of entrepreneurship development. When there is sufficient number of persons having psychological characteristics in the society, then there are bright chances of development of entrepreneurship. Entrepreneur behaviour is governed by psychological factors, such as, mental outlook, predisposition, emotions etc. The activities of the entrepreneur are the result of his mental background. The personality of the entrepreneur affects his behaviour, decisions, plans, thinking and activities. The personality of the entrepreneur plays a dominating role in the development of his activities. Psychological part of personality of an entrepreneur motivates, controls and directs his perception, thinking, outlook, style, nature, learning, attitude, ethics, belief, opinion, expectation, action, disposition and internal needs etc.

Main Psychological Theories

Leading authors like Schumpeter, McClelland, Hagen and John Kunel have expressed their views about psychological factors affecting entrepreneurship. They have developed their theories in which they have explained the different psychological aspects of entrepreneur's personality.

According to the advocates of these theories, entrepreneurship is most likely to emerge when a society has sufficient supply of individuals possessing particular psychological characteristics. The main psychological theories are as follows:

- **Joseph A. Schumpeter's Theory:** According to Schumpeter's entrepreneur psychological theory, the entrepreneurs are primarily motivated by an atavistic will of power, will of a private kingdom, or will

to conquer. According to Schumpeter, the following characteristics appear in the behaviour of an entrepreneur:

- An institutional capacity to see things in a way which afterwards proves to be true.
- Energy of will and mind to overcome static habits, desires and emotions.
- The capacity to withstand social opposition.

According to Schumpeter, an entrepreneur is an innovator who desires to earn profit through innovation. An entrepreneur is neither a technical man nor a capitalist, but simply an innovator. He introduces something new in an economy. He is motivated by his psychological powers. An entrepreneurship is formed for establishing his industrial empire. He has a burning desire for creative activities. Schumpeter makes a distinction between innovator and an inventor. An inventor discovers new methods and new material. On the contrary, an innovator is one who utilises or applies inventions and discoveries to produce newer and better quality of goods that give greater satisfaction to consumers and higher profits to entrepreneurs. In this way, an entrepreneur is an innovator.

- **David C. McClelland's Theory:** According to McClelland theory, "Burning desire of need for achievement attracts an entrepreneur for activities". The primary basis of the development of entrepreneurship is the achievement orientation. The capacity of becoming an entrepreneur develops due to desire of reaching heights of excellence and specific performances. For achieving heights of excellence, an entrepreneur needs rational thinking, new combinations, deep thinking power etc. The achievement motive is inculcated through child rearing practices, which stress standards of excellence, maternal warmth, self-reliance training and a low father dominance. Individuals with high achievement motive tend to take keen interest in situations of high risk, desire for responsibility and a desire for a concrete measure of task performance. McClelland views can be expressed by means of the following lines:

Ideological Values Family Socialisation

Need for Achievement Entrepreneurial Behaviour

McClelland has suggested 'Motivation Training Programme' for the development of entrepreneurship. Further, he has conducted a number of experiments in the field of 'achievement orientation.'

- **Everett E. Hagen's Theory:** Hagen has developed the *Theory of withdrawal of Status*. Hagen considers *Withdrawal of status* respect as the trigger mechanisms for changes in personality formation. Status withdrawal is the perception on the part of some social groups. According to Hagen, the creativity of disadvantaged minority group is the main source of entrepreneurship. The origin of his concept of his psychological theory of entrepreneurship is based on 'Samurai Community' of Japan.

Traditionally, this community of Japan had occupied a very high position in the society. Later on, the high position and prestige was lost. In order to regain his lost position and prestige, this community became highly active, creative and powerful. This community gave birth to a number of entrepreneurs.

In this way, according to Hagen's concept, status withdrawal or fall of status of a social group is the primary cause of personality formation and entrepreneurship development. Hagen identifies the following four types of events that can produce status withdrawal and prestige fall:

- Displacement by force;
- Denigration of valued symbols;
- Inconsistency of status symbols with a changing distribution of economic power;
- Non acceptance of expected status on migration to a new society.

In case of withdrawal or reduction in status and prestige that man or the group will indulge in creative activities which will develop entrepreneurial. The society will give birth to status dissonance entrepreneurs.

- **John H. Kunbel's Theory:** John H. Kunbel has presented a behavioural theory in connection to the development of entrepreneurship. Kunbel's behavioural theory is concerned with the overtly expressed activities of individuals and their relations to the previously and presently surroundings social structures and physical conditions. Behavioural patterns are determined by reinforcing and aversive stimuli present in the context. Hence entrepreneurial behaviour is a function of the surrounding and social structures, both past and present and can be readily influenced by the manipulative economic and social incentives. For the development of entrepreneurship, he has given stress on the following four types of structure:

- **Limitation Structure:** Entrepreneur is a person who walks on different path in the process of economic development. But the main determinant factor of path deviant is the social surrounding which limits the behaviour of individuals. This limitation structure affects the development of entrepreneurs.

- **Demand Structure:** Primarily, limitation structure is social and cultural, whereas demand structure is of economic nature. Demand structure is changing according to economic progress and government policies. The behaviour of individual can be made enterprising by affecting the main elements of demand structure.

- **Opportunity Structure:** Opportunity structure is formed by combination of supply of capital, managerial and technical skill,

production methods, labour and market, training opportunities, establishment of an enterprising and conduct of different activities.

• **Labour Structure:** Labour structure is directed by several factors, such as, source of livelihood, traditional outlook and life ambitions.

According to Kunbel the supply and development of entrepreneur depends on the existence and comprehensiveness of the above four structure. Entrepreneurship depends on the specific combination of circumstances whose creation is difficult but destruction is easy. In short, according to Kunbel, entrepreneurship is the result of social, political and economic structure of a country.

Theories of Entrepreneurship: The various theories of entrepreneurship may be discussed as follows:

- **Trait Theory of Entrepreneurship:** This theory holds that entrepreneurship developed because the individuals called entrepreneur possessed certain specific traits or characteristics or competencies which made them capable of generating new ideas and creating a new venture. The major traits responsible for the emergence of entrepreneurship are said to be: creative and innovative skills, propensity to take risks, ability of building on organisation and managing it effectively, perseverance, and foreseeability. Different studies have emphasised different traits. However, it may be noted that there are opponents of the trait approach. They ask a logical question as to whether those among us who do not choose to be entrepreneur, have similar traits.

- **Economic Theory:** According to this theory, entrepreneurship and economic growth will take in those situations when particular economic conditions and opportunities are most favourable for them. G.E. Pataneck and J.R. Harris are the main advocates of this theory. According to them, economic incentives are the main drive for entrepreneurial activities. Entrepreneurs emerge due to incentives and economic gain. When an entrepreneur realises that he can make gain by purchasing or producing goods at a particular time and selling them at higher prices at a later stage, he will tend to act. In essence, he is a seeker of profitable opportunities as and when they arise. In some cases, it is not so evident, but his inner drives have always been associated with economic gains. Therefore, these incentives and gains are regarded as the sufficient condition for the emergence of business and industrial entrepreneurship. When an entrepreneur recognises that the market for a product or service is out of equilibrium, he may purchase or produce them at the prevailing price and sell to those who are prepared to buy at the highest price.

- **Sociological Theory:** According to sociologists, the emergence of entrepreneurship is under specific social culture. According to sociological concept, social sanctions, cultural values, traditions, group dynamics and role expectations are responsible for the emergence of entrepreneurship. For example, according to Thomas Cochran's Theory, "Cultural values role expectations, ambitious and social sanctions occupy

important place in the entrepreneurship development.” In India, Marwaries and Parsees are considered to be the dominant social classes as source of entrepreneurship. According to Everett Hagen the driving force in an entrepreneur is the withdrawal of status or respect *i.e.*, social change. When a person feels that his status or respect has been withdrawn, he feels hurt and reacts to regain his lost status or respect by creatively solving the problems of his social group. This feeling of deprivation and will to regain drives him to entrepreneurial activities.

- **Psychological Theory:** According to McClelland the characteristics of entrepreneur has two features – first doing things in a new and better way and second decision making under uncertainty. McClelland emphasises achievement orientation as most important factor for entrepreneurs. Individuals with high achievement orientation are not influenced by considerations of money or any other external incentives. Profit and incentives are merely yardsticks of measurement of success of entrepreneurs with high achievement orientation. The achievement orientation can be taught and increased by deliberate efforts. The struggle to achieve more and more is taught to children by their parents. The individuals with high achievement orientation take calculated risks and can make decisions where there are incomplete information or have tolerances for ambiguity. Psychologists call this behaviour as Type-A behaviour.

In this theory, psychological factors are the primary source of entrepreneurship development. Entrepreneurship is most likely to emerge when a society has sufficient supply of individuals possessing particular psychological characteristics, such as high need for achievement, will to conquer etc.

Schumpeter believed that entrepreneurs are primarily motivated by an atavistic will to power, will to found a private kingdom or will to conquer. According to McClelland need for high achievement drives individuals towards entrepreneurial activities. High achievement need can be developed through child rearing and schooling practices. People with high achievement need are not motivated by monetary rewards only such people regard profit as a yardstick (measure) of success. On the contrary people with low achievement need are motivated by monetary rewards.

- **Integrated Theory:** Integrated theory of development of entrepreneurship is based on several economic, social, cultural, political and psychological factors. The main contributors of integrated theories are:

According to T.V. Rao, entrepreneurial disposition plays an important role in the development of entrepreneurship. The fundamental of entrepreneurship is entrepreneurial disposition. If entrepreneurial disposition is withdrawn from the entrepreneur then his whole existence will come to an end. It is the entrepreneurial disposition which motivates an entrepreneur to take risk, to move forward and establish new enterprises. According to Mr. Rao, the following factors are included in

entrepreneurial disposition: (a) Dynamic Incentive, (b) Long-term Devotion, (c) Individual, Social and Physical Resources, (d) Social and Political System.

- **Innovative Theory:** Innovate theory of entrepreneurship was advocated by Joseph Schumpeter. According to him entrepreneurship is essentially a creative activity. It consists in doing such things which are not generally done in the ordinary course of business. An entrepreneur is one who innovates, *i.e.*, carries out new combinations. He takes the economy to new height of development. They foresee the potentially profitable opportunity and try to exploit it. Innovations involve problem solving and entrepreneur is a problem solver. Innovation may occur in the following forms:

- Introduction of a new product with which consumers are not familiar or introduction of a new quality of an existing product.
- Introduction of a new method of production.
- Opening of a new market.
- Discovery of a new source of raw-materials.
- Carrying out a new organisation of any industry, like the creation of a monopoly position or the breaking up of a monopoly position.

2.6 SUMMARY

The development of entrepreneurship depends on several factors. Various factors are responsible for the development or origination of the entrepreneurship. The theories which have been given by some prominent scholars as regards the development of entrepreneurs can be divided into following categories:

- **Psychological Theory:** The theory is based on the hypothesis that the development of entrepreneurship is affected by psychological, internal and immaterialistic powers. The internal desires and inspiration leaves a great impact on development of entrepreneurs.
- **Economic Theory:** The economic theory emphasise that the development of entrepreneurship is the result of several economic functions. The assumption is that the psychological motivation for monetary gains exists in all the societies. This motivation gives birth to economic development. It further says that the most important quality of an entrepreneur out of four qualities is his imaginative thinking capabilities. Efforts can be made to develop this quality.

2.7 QUESTIONS

- What is meant by innovation? Discuss the relationship between innovation and entrepreneur.
- Describe in brief the main psychological theories.
- Discuss the main theories of entrepreneurship.
- Discuss in detail the theories of development of entrepreneurship.
- What are different theories of entrepreneurship development? Examine critically.



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BASIC CONCEPTS

Unit Structure

3.1 Introduction

3.2 Entrepreneur as a Leader

3.3 Entrepreneurial Decision-making

3.4 Questions

3.1 INTRODUCTION

Basic concepts relating to entrepreneurship such as Entrepreneur, Intrapreneur, and Manager are often used interchangeably. In this lesson we shall define basic concepts used in Entrepreneurship.

Entrepreneur is seen differently by different sections of society. Economists see him as a creator of industrialisation. Economists also view an entrepreneur as a man who is activated primarily by profit motive. The various ways an entrepreneur organises are discussed below:

David C. McClelland wrote that “an entrepreneur is an individual who takes moderate risks and brings innovation. McClelland also suggests that an entrepreneur is not characterised by routine tasks which are managed by usual managers and situations of high risks such as gambling or betting. The entrepreneur exhibits a desire to take personal responsibilities for decisions preference for moderate risks and interest in concrete knowledge of business and the possible outcomes.”

Richard Cantillon defines the term entrepreneur as “the agent who buys means of production at certain prices in order to combine them into a product that he is going to sell at prices that are uncertain at the movement at which he commits himself to his costs”. Cantillon explains his concept of entrepreneur by an example of a farmer. A farmer takes risk of paying the daily wages to the labourers and fix amount to the landlord and for selling his produce at an unknown future price. For that matter in any business the risk is inherent due to price fluctuations in the markets.

Everett E. Hagen describes an entrepreneur as “a creative problem solver interested in things in the practical and technological area. He is a person who has high need achievement and feels a sense of increased pleasure when he faces a problem. He does not rebel against the conventional view for sake of rebelling, also he does not accept it because it is generally accepted.”

J.B. Say defines an entrepreneur as “economic agent who unites all means of production, the labour of the one, the capital or the land of the other and who finds in the value of products which results from their employment, reconstitution of the entire capital that he utilizes and the value of the wages, the interest and the rent which he pays as well as profits belonging to himself.”

3.2 ENTREPRENEUR AS A LEADER:

Leadership is an important concept of an entrepreneur. According to **Keith Davis**, “Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor which binds a group together and motivates it towards goal.” Thus, leadership is the process of influencing the activities of an individual or a group for goal achievement in a given situation. In this sense, entrepreneur is a leader who guides the activities of his staff to achieve the desired goal or objective. An entrepreneur is a torch bearer who takes his enterprise from darkness to light on account of leadership concept. Through leadership concept an entrepreneur raises morale of his employees which lead to high productivity and stability of his enterprise. Without a good leader no enterprise can function efficiently and effectively. As a leader, entrepreneur motivates his employees for high performance and creates necessary confidence on account of which the desired objectives are achieved within the specified time.

Behavioral Patterns and Need for Achievement:

Entrepreneur must take initiative to do something new. Individually he must be attached at emotional level to the project he conceives. He must be encouraging orderliness and economy and possess an art of superintendence and administration. An entrepreneur will have feel of the society where he is working and be identified with the well being of the society. He takes care of all stakeholders, hence society in turn will have feel for the entrepreneur and his enterprise. The individual entrepreneur will have feel for self-development as well as for others in the team. It will be a continuous learning and relearning exercise. The feelings can be summarised as ‘spirit of enterprise’.

Entrepreneurs in India came from different strata of society. The behavioural pattern of the entrepreneurs had common characteristics. Each of them valued business as a good means to develop society. He chooses the path of innovation and overcomes the problems, resistances and obstacles that come in the way of doing new ventures. All the entrepreneurs were men of discipline, high integrity and with strong need for achievement.

The need for achievements comes from the socio-economic background of an individual. Business is a game where the achievement orientation and risks both co-exist. McClelland finds that high achievement orientation is a critical factor for explaining the economic behaviour of an entrepreneur. The high achievement orientation takes an entrepreneur to success in situations where he has to be evaluated for his own performance to the

standards of excellence in the particular field. The high achievement orientation will make a successful entrepreneur. Achievement orientation can be enhanced by proper training. The achievement oriented people are not influenced by money or any such rewards.

Risk Taking:

Risk taking is an important concept of entrepreneurship. An entrepreneur is always ready to face uncertainties and risk which occur due to unforeseen contingencies of the future. However, successful entrepreneurs are neither high risk takers nor gamblers. They prefer to take moderate and calculated risks where the chances of winning are neither so small nor so large as to be a sure thing. Rather, risks are preferred which provide a reasonable and challenging chance of success, and a situation whose outcome is influenced as much by one's ability and effort as by mere chance. This entrepreneurial concept is a most important concept, since it has significant implications for the ways decisions are made, and thus, for the success or failure of business.

According to *Nelson and Neck*, "Entrepreneurs are calculated risk- takers. They enjoy the excitement of a challenge, but they don't gamble. Entrepreneurs avoid low-risk situations because there is the lack of challenge and they avoid high-risk situations because they want to succeed. They like achievable challenges."

Business is a game of skill wherein risks and rewards both are of great importance. Entrepreneurs seems to be well aware of no-risk, no return, high risk-high return theories. However, high-risk sometimes lead to total failure leading to total collapse of business enterprise. Ability of the highest order is required for success in entrepreneurship. Entrepreneurs prefer to take only moderate challenging risk where moderate returns are attainable and the same is influenced by their abilities and decisions. In this case, several studies have defied or confirmed the importance of the risk taking concept of entrepreneurship. An entrepreneur tries to reduce the uncertainties and thereby risk by his initiative, skill and judicious approach to the problem standing before him.

3.3 ENTREPRENEURIAL DECISION-MAKING

Decision-making involves choosing a course of action from several alternatives. As such, as entrepreneur is basically a decision- maker. He is required to take immediate decision as and when the problem or opportunity arises. The success of any entrepreneur depends on the right decision, at the right time and at the right place. An entrepreneur is required to take decision as to nature and type of goods to be produced, how much is to be produced, when and where is to be produced, how is to be produced, quality of the goods to be produced, by whom the goods are to be produced etc. The goods produced to be such which can satisfy to the customers on one side and give fair return (profit) to the entrepreneur on another side. He effects suitable changes in the shape and size of business, its location, techniques of production and does everything that is

needed for the development of business enterprise. According to *Emerson*, “A person who can take decision, nothing is impossible for him.” In this way, decision-making is another important concept of entrepreneurship.

Entrepreneurs and Managers:

Any enterprise needs entrepreneurs to start the enterprise and run it. It also needs managers for the managerial role required for running day to day operations of the enterprise. Generally the Chief Executive and his team at top level play the role of entrepreneurs whereas the group of officers in the organisation in middle level as well as lower level plays the role of managers. A professional manager takes care of the general functions of running an organisation such as strategic planning, operation planning, organising the resources, staffing, coordination, motivation and controlling work in the organisation. The professional manager is driven by a plan to achieve the predetermined targets to build the organisation and develop it. A manager uses managerial tools to achieve the targets like the volume of production, the profit or growth of an organisation. He contributes on day to day operations in achieving the quality of goods produced, makes efficient use of the resources and enhancement of the standards. A manager is appointed by the organisation and paid as per the employment contract.

An entrepreneur is not a paid manager. He is great motivator to start his new business and also manage it successfully. He is the investor and takes risks in the enterprise. He is an innovator and a manager and works for his satisfaction and he is happy to get positive results. An entrepreneur appoints a manager for carrying out some of his functions, whereas the reserve is not true. An entrepreneur may also perform duties of a manager in getting done his creative activities and satisfying need of achievement. An entrepreneur takes a venture for his personal satisfaction, whereas a professional manager has functions like setting targets, following rules, procedures, attainment of set targets. Any failure of an enterprise may be a huge loss in the career of an entrepreneur. In case of professional managers the failures may mean little.

Manager and Entrepreneur Distinguished		
Particulars	Managers	Entrepreneurs
Primary Motive	Want promotion and traditional corporate rewards. Power motivated.	Wants freedom, goal oriented, self reliant, self motivated.
Action	Delegates action, supervising and reporting takes most of energy.	Get hands dirty. May upset employees by suddenly doing their work.

Skills & Training	Professional Training, Often Business School Trained	Knows business Intimately. More Abstract analytical business acumen than managerial tools, people management, and political skills. Often technically, trained if in technical business.
Courage and Destiny	Sees others in charge Self-confident, optimistic, courageous. of his or her destiny.	Can be forceful and ambitious, but may be fearful of others' ability in case of optimism.
Attention	Primarily on events inside corporation.	Primarily on technology and market place
Family background	Family members professional	Entrepreneurial small business, worked for large organisations
Relationship with others	Hierarchy as basic relationship	Transactions and deal making as relationship
Time Orientation	Respond to quotas and Budgets, weekly, monthly, quarterly, annual planning horizons, the next promotion or transfer	End goals of 5-10 year growth of business in view and objectives. Takes action now to move the next step along way.
Status	Cares about status symbols job (decent office, etc.)	Happy sitting on an orange crate if job is getting done
Risk	Careful.	Like moderate risk. Invests, heavily, expects to succeed but
Market Research	Has market studies done to discover needs and guide product	Creates needs. Creates products that often can't be tested with market research-
Decision	Agrees with those in power. Delays decision until he gets a feel of what bosses want.	Follows private vision, decisive and action oriented.
Failure and Mistakes	Strives to avoid mistakes and surprises.	Deals with mistakes and failures as learning experiences.
Attitude Towards the System	Sees system as nurturing and protective, seeks position within it	May rapidly advance in a system, when frustrated, reject the system form his or her own

Intrapreneur

An entrepreneur starts an organisation and in due course of time hundreds of talented engineers, technocrats, financial and other areas experts work. These employees get involved in organisation work and they too will have entrepreneurial skills and talent to display in third man of work. If they are allowed to work with entrepreneurial skill (rather than routine way) then their innovative efforts will help them to grow better with rewards. This process is called intreprenurship and the word “Intra” means within the organisation.

Definition of Intrapreneurship: “Developing a spirit of entrepreneurship within the existing organisation is called intrapreneurship”.

Intrapreneurship is necessitated due to pressure of competition of business, socio-cultural necessities. Marketing competition calls for extra market share, business leadership, price supporting quality-reliability and brand image. For achieving these creativity and innovation are key factors and to develop these factors intrapreneurship plays a vital role.

Corporate entrepreneurship or better known as “intrapreneurship” encourages innovation within existing companies through motivated employees, who are supported with company resources.

More precisely these managers create a team that initiate certain activities and evolve a new operating division or a formal subsidiary.

According to Gifford Pinchot who gave us the term “intrapreneurs”. “These courageous souls form underground teams and networks that routinely boot leg company resources or ‘steal’ company time to work on their own missions”.

The contradiction prevails that in intrapreneurship, entrepreneurship does not exist because salaried employees who innovate take little or no personal risk. Consequently, they seldom reap rewards beyond bonuses and promotions.

They are protected in their jobs and have access to corporate resources.

Nevertheless they champion new ideas and alter the course of their companies through tenacious innovation.

Corporate entrepreneurs do not have a personal share in their creations. There is no profit and no loss. They are not being entrepreneurs. But since the employers stop being employers and allow them to do their own innovations and creations the employees start being “entrepreneurs” and often work independently with some degree of autonomy.

Characteristics of Intrapreneur

Some of the characteristics for intrapreneur are as follows:

- Visionary and flexible
- Know-how of the environment
- Think and develop management options

- Stimulate and support team work
- Encourage suggestions and open discussions

One who can establish a successful entrepreneurial venture has got to be a visionary leader who dreams get achievements. “Leadership is the ability to dream get things and communicate these in such a way that people say yes to being a part of the dreams.” Obstacles can be overcome by setting dreams to followers. He should be open to changes and encourage for creating something new in the organisational working.

Large organisations are less attentive to creativity and if average age of employees is on higher side (above 45 years) then the innovation, creativity and efficiency are not on the rise. Intrapreneur should have know-how of the environment he is working. Persist on new ideas, support changes and trial and error methods which lead to creativity.

An intrapreneur must have the ability to encourage teamwork and use a multi-disciplined approach. This may be different from the organisational practices and structures taught in most business schools and apparent in established corporate plans. Such new company formation requires a broad range of business skills like engineering, production, marketing and finance. In shaping a new venture, recruiting those in the organisation usually requires crossing established departmental structure and reporting systems. To reduce the negative effect of any changes caused, an intrapreneur must be a good diplomat.

Scope for open discussion must be created to develop a good team for developing something new. Quite a few corporate managers have forgotten the frank, open discussion and disagreements that were a part of their educational process. Time is spent in building protective barriers and insulating themselves in their corporate empires. A good new intrapreneurial venture can be formed only when the team involved feels the freedom to disagree and to comment on a new idea in an effort to reach the best solution. The level of openness among the team depends on the level of openness of the intrapreneur.

An environment of openness also leads to the establishment of a strong coalition of supporters and encouragers. An intrapreneur must encourage and affirm each team member, particularly during difficult times. Such encouragement is very important, as the usual motivators of career paths and job security are not operational in establishing a new intrapreneurial venture. A good intrapreneur makes everyone feel important.

Entrepreneur and Intrapreneur:

The following are the differences between entrepreneur and intrapreneur:

Entrepreneur v/s Intrapreneur

- **Ownership** : Entrepreneur is the owner of the enterprise. : Intrapreneur is an executive who works under the entrepreneur enterprise.

- **Formation of Capital :** Entrepreneur raises capital for the enterprises . : Intrapreneur uses the capital raised by the entrepreneur.
- **Experience :** An entrepreneur generally has no experience in an enterprise. He starts afresh. : Intrapreneur has some experience as an executive. He switches over as an entrepreneur later.
- **Freedom :** Being the owner of the enterprise, entrepreneur has full freedom to run the enterprise. : Intrapreneur is an employee and hence lack freedom.
- **Taking Risk :** Entrepreneur assumes the risk of his business enterprise. : Since he is an employee, question of bearing any risk does not arise in his case.
- **Professional Qualification :** Entrepreneur generally may not have any professional qualification. : Intrapreneur is basically a professional turned entrepreneur.
- **Management :** Entrepreneur manages the business business enterprise from outside. : Intrapreneur manages the enterprise as he is the manager of the unit.
- **Brain-drain :** Entrepreneur does not cause brain-drain. : Intrapreneur causes brain-drain.

Types of Entrepreneurs:

- **The Trader:** The early entrepreneurs were traders, buying a commodity where it was available in plenty and reaching it to consumers in places where it was not available. This often took the trader to faroff lands across the seas, exposing him to a variety of skills and also creating in him a number of skills he did not possess before. As he got exposed to new people, new cultural groups, he found fresh opportunities to fulfill their unsatisfied wants. In this way, his business grew, Traders, who were small in number and were rarely noticed, soon became a force to reckon with in society. The most prominent examples of a trader becoming a dominant force is the East India Company in India.
- **The Industrialist:** These are entrepreneurs who started producing themselves the products they dealt in. For example, when imports became difficult, many traders set up manufacturing units to produce the items they used to deal in. They used their well established distribution network to sell these products. Where the trader takes to manufacturing they either had the skills to manufacture or could hire such skills. Those who could do were successful industrialists. Traders who took to manufacturing without possessing or having access to manufacturing skills found the sailing to be far from smooth.
- **Agricultural Entrepreneurs:** In a predominantly agricultural country like ours, we would expect a lot of things to happen on the agricultural front. In fact a lot of innovations have happened in the rural sector.

Harnessing the new technology to increase agricultural production has helped us see the Green Revolution. Better organisation of the distribution system through cooperatives with proper infrastructural facilities and financial support from the Government and financial institutions have given a shot in the arm to the peasants in the countryside and raised and living standards of the rural folk. Simultaneously, a number of rural entrepreneurs have been created in activities outside the farms, using local talents and local resources. Such activities include dairy products, poultry farming, making of domestic items like papads and pickles, gathering and selling honey, handicrafts and handlooms. The only danger to the development of the countryside lies in the fact that we may end up in industrialising and urbanising the rural areas instead of developing the rural areas with local resources and local talents.

- **Entrepreneurs Providing Services:** We are living in an age where a number of services are being provided literally to pamper us and to make our lives comfortable. The boy who brings the morning newspaper or the milk from the distributor each morning in the sprawling housing complex is an entrepreneur. He provides a service a few more winks of sleep for you while he earns to make his keep. Services of all kinds are coming into existence in recent years. Where the public transport system is unable to cope with the increasing traffic, private bus operators provide travel with comfort to office and back. When real estate prices are skyrocketing and hotel tariffs at hill stations are becoming exorbitant the concept of shared holiday resorts has sprung up. When the postal services are goading with the volume of mail, an erratic transport system and unpredictable employee behaviour, the flourishing courier business has found a niche for itself. Examples of this kind can be multiplied.

- **The Technocrat Entrepreneur:** It is not unusual to find technically trained people starting manufacturing units of their own. This is true of many IIT Graduates. Very often frustration on the existing job and sometimes the golden handshake helps such technocrats to breakaway and start something afresh. Sometimes the parent organisation assists the technocrat entrepreneur by giving him technical support, Financial assistance or a market for his output. Most of the incentive schemes of the state governments to lure entrepreneurs are biased in favour of the technocrat entrepreneur. Many large companies are finding their costs soaring; they can reduce overall costs by farming out unprofitable operations to people ready to undertake them. This has developed the process of ancillary industries.

- **The Professional Entrepreneur:** The Lawyer, the Accountant, the Engineer, the Doctor or the Management Consultant who sets up shop to use his knowledge and skills to help others for a fee is an entrepreneur. He goes through the same pangs, the trauma, that the promoter of a small scale business man does. The desire to be self employed might be the reason for some of the professionals to set up shop. For others it might be the routine and monotonous work at the place of employment, a nagging boss or an environment that does not provide innovation and creativity could be the reason for seeking greener pastures. Those who inherit a

practice from their father or mother literally start with a silver spoon in their mouths; for the rest the gestation period could be large. Many professionals who leave their jobs to be self employed often retain their associations with their parent organisations through retainerships or consultancy assignments.

- **The Nontechnocrat Entrepreneur:** It is not necessary that an entrepreneur should be either a professional or a technocrat. Any person with a bright idea, who is willing to work hard and face moderate risks in the process of translating the idea into a reality could be an entrepreneur. However, it is generally seen a such an entrepreneur usually teams up with a technocrat or a financier to put up a business venture. This is particularly possible where the nontechnocrat entrepreneur possesses administrative or marketing skills, or the necessary contacts which can help expand the business through increased clientele.

- **The Classical Entrepreneur:** He is an old time, stereotype, generally a trader. He is skillful in perceiving opportunities and works hard to grab those opportunities, making a profit in the process for himself. His main motivation is profit and self development and through these, the development of his enterprise.

- **The Modern Entrepreneur:** He has a modern outlook. He prefers hitech ventures, uses modern marketing techniques and wishes to do something different from the rest, if the typical Udipi Restaurant owner can be called the classical entrepreneur, his counterpart who diversifies into Punjabi and Chinese Dishes, opens fast food counters or sets up branded chain restaurants is the modern entrepreneur.

- **The First Generation Entrepreneur:** It was generally believed that the entrepreneurial spirit is acquired by birth in a business family or by belonging to a particular community. Surprisingly, this belief no longer holds true. Many of today's new breed of entrepreneurs do not have a business background they are the first generation entrepreneurs. The accent on Motivation Training as part of the Entrepreneurship Development Programme has helped in creating a number of first generation entrepreneurs, who, going by their religious community or family backgrounds, would never have been entrepreneurs.

- **Spontaneous Entrepreneurs:** Empirical studies have shown that there are several entrepreneurs who have gone into entrepreneurship spontaneously. Such entrepreneurs are motivated immediately by a desire for achievement and self-punishment. They want to achieve something new and which others have not achieved. They want to exploit their own abilities and capacities to the maximum by their excellent performance. Thus, they have inner motivation or self-motivation. In fact, they are natural entrepreneurs in a society. Their strength or force lies in their capabilities and it leads them to launch innovative business ventures. Such entrepreneurs are usually young personalities of the society who cherish a burning desire and an ambition of becoming the 'owner' or 'one's own boss' or 'subordinate to none' in their life.

- **Induced Entrepreneurs:** Quite a few of the entrepreneurs who were met and interrogated explained that they got into entrepreneurship as a change or a breakaway from what they were then doing. An accountant who intended to take up a job on qualifying had to take over his father's flourishing tailoring business when his father died. A successful lawyer took over a flourishing motor training school from his deceased father. An accountant in a steel rolling mill started a ventures as a scrap merchant and eventually set up a steel rolling mill himself. A postgraduate, distinction holder who started as a clerk in a bank decided to abandon his clerkdom and start sharing his knowledge with the student community. He has built up a vast network of coaching institutions. Many of these persons were pushed into self-employment through circumstances like frustration on the present job, a new idea striking an individual while working on an otherwise monotonous job, a family business that needed attention after the death of its founder.

- **Motivated Entrepreneurs:** These are persons who perhaps never dreamt that they would become successful entrepreneurs. But they had the desire to do something different. Perhaps they got the right break, proper guidance, some support, adequate motivational training. Once they took the plunge there was no going back for them. A large number of entrepreneurs have come up in recent times thanks to the efforts put in by the National Institute for Entrepreneurship and Small Business Development, SIET of Hyderabad. The Entrepreneurship Development Institute of Ahmedabad, The Small Industries Services Institutes located in different parts of the country and organisations like the MSSIDC, the National Productivity Council and the All India Management Association.

- **The Starters:** They are on the threshold of an entrepreneurial career. They have been caught by the entrepreneurial bug and they are busy trying to bring their ideas to fruition. They keep knocking at the curious doors financial institutions, government agencies etc. Despite the problems facing them, they do not get frustrated. They face each problem as an athlete faces a hurdle, with confidence and determination. A few of them who are not tenacious enough, tend to break down.

- **The Problem Solvers:** These are entrepreneurs who have started the business enterprise and have started managing them. They have shed their purely entrepreneurial role and have taken on the managerial mantle. Some face a problem of adjusting to this new role. Their eye for details and their own willingness to work hard (and insistence that their followers also do so) is perceived by their employees and the boss trying to be too "bossy". Even in solving business problems the entrepreneur's perspective is sometimes found to be different from that of the manager. Such role conflicts do dominate at this stage of the development of the venture. Some are successful in getting over these problems and are able to solve the problems facing the business in a practical, determined fashion. Some seek the help of consultants and personal advisors. This is a crucial stage in the life of a small business, and often in this stage the infantile mortality of small business units is high.

- **The Successful Entrepreneur:** He has overcome all the teething troubles of his business ventures. He is master of his venture. His venture is fairly stable. He now looks for new pastures for growth and diversification. He finds time to be associated with industry groups since he wants recognition among his peers. His plans for growth and diversification might expose him to greater risks, but he faces them with confidence; the returns also are greater. And risks get diversified in a diversified business.
- **The Philanthropist:** He is the businessman who has tasted the fruits of business success. He now wants to give to society something of what society gave him. His approach to employees, suppliers and customers undergoes a radical change. May be on the verge of retirement he emerges with a transformed soul.

3.4 QUESTIONS

- Discuss the concept of entrepreneurship as Leadership, Risk taking, Decision-making and Business Planning.
- Distinguish between entrepreneur and manager.
- Distinguish between entrepreneur and intrapreneur.



SUCCESSFUL ENTREPRENEURS

Unit Structure

4.1 Introduction

4.2 Case Study

4.3 Question

4.1 INTRODUCTION

University has prescribed case studies of successful entrepreneurs

University has also prescribed case study on (a) Dhirubhai Ambani, and (b) Aditya Birla. We give below case study of these great entrepreneurs, who made significant contribution in the growth of entrepreneurship in our country.

4.2 CASE STUDY: Dhirubhai H. Ambani

Dhirajlal Hirachand Ambani also known as Dhirubhai was born on 28th December 1932, (expired on 6th July 2002), was an Indian rags-to-riches business tycoon who founded Reliance Industries in Mumbai with his cousin. Ambani took his company (Reliance) public in 1977, and by 2007 the combined fortune of the family (sons Anil & Mukesh) was 6 billion dollars, making the Ambanis one of the richest families in the world.

Early life

Dhirubhai Ambani was born on 28th December 1932 at Chorwad, Junagadh (now the state of Gujarat, India) to Hirachand Gordhanbhai Ambani and Jamnaben in a Modh Bania family of modest means. He was the second son of a school teacher. When he was 16 years old, he moved to Aden, Yemen. He worked with A. Besse & Co. for a salary of Rs.300. Two years later, A. Besse & Co. became the distributors for Shell products, and Dhirubhai was promoted to manage the company's filling station at the port of Aden.

He was married to Kokilaben and had two sons, Mukesh Ambani and Anil Ambani and two daughters, Nina Kothari and Deepti Salgaonkar.

Reliance Commercial Corporation

In 1962, Dhirubhai returned to India and started the Reliance Commercial Corporation with a capital of Rs.15,000.00. The primary business of Reliance Commercial Corporation was to import polyester yarn and export spices.

The business was setup in partnership with Champaklal Damani, his second cousin, who used to be with him in Aden, Yemen. The first office of the Reliance Commercial Corporation was set up at the Narsinatha Street in Masjid Bunder. It was 350 sq ft. room with a telephone, one table and three chairs. Initially, they had two assistants to help them with their business. In 1965, Champaklal Damani and Dhirubhai Ambani ended their partnership and Dhirubhai started on his own. It is believed that both had different temperaments and a different take on how to conduct business. While Mr. Damani was a cautious trader and did not believe in building yarn inventories, Dhirubhai was a known risk taker and he considered that building inventories, anticipating a price rise, and making profits. In 1968, he moved to an upmarket apartment at Altamount Road in South Mumbai. Ambani's net worth was estimated at about Rs.10 lakh by late 1970s.

Asia Times quotes : "His people skills were legendary. A former secretary reveals: "He was very helpful. He followed an 'open-door' policy. Employees could walk into his cabin and discuss their problems with him." The chairman had a special way of dealing with different groups of people, be they employees, shareholders, journalists or government officials. Ambani's competitors allege that he bought off officials and had legislation re-written to suit him. They recall his earlier days and how he picked up the art of profiteering from the then-Byzantine system of controls of Indian officialdom. He exported spices, often at a loss, and used replenishment licenses to import rayon. Later, when rayon started to be manufactured in India, he exported rayon, again at a loss, and imported nylon. Ambani was always a step ahead of the competitors. With the imported items being heavily in demand, his profit margins were rarely under 300 percent."

Reliance Textiles

Sensing a good opportunity in the textile business, Dhirubhai started his first textile mill at Naroda, in Ahmedabad in the year 1977. Textiles were manufactured using polyester fibre yarn. Dhirubhai started the brand "Vimal", which was named after his elder brother Ramaniklal Ambani's son, Vimal Ambani. Extensive marketing of the brand "Vimal" in the interiors of India made it a household name. Franchise retail outlets were started and they used to sell "only Vimal" brand of textiles. In the year 1975, a Technical team from the World Bank visited the Reliance Textiles' Manufacturing unit. This unit has the rare distinction of being certified as "excellent even by developed country standards" during that period.

Initial public offering

Logo of Reliance Industries Limited Dhirubhai Ambani is credited with starting the equity cult in India. More than 58,000 investors from various parts of India subscribed to Reliance's IPO in 1977. Dhirubhai was able to convince large number of small investors from rural Gujarat that being shareholders of his company would be profitable.

Reliance Industries was the first private sector company whose Annual General Meetings were held in stadiums. In 1986, The Annual General Meeting of Reliance Industries was held in Cross Maidan, Mumbai and was attended by more than 35,000 shareholders and the Reliance family.

Dhirubhai managed to convince a large number of first-time retail investors to invest in Reliance.

Ambani's net worth was estimated at about Rs.1 billion by early 1980s.

Dhirubhai's control over stock exchanges

In 1982, Reliance Industries came up against a rights issue regarding partly convertible debentures. It was rumored that company was making all efforts to ensure that their stock prices did not slide an inch. Sensing an opportunity, a bear cartel which was a group of stock brokers from Calcutta started to short sell the shares of Reliance. To counter this, a group of stock brokers till recently referred to as "Friends of Reliance" started to buy the short sold shares of Reliance Industries on the Bombay Stock Exchange.

The Bear Cartel was acting on the belief that the Bulls would be short of cash to complete the transactions and would be ready for settlement under the "Badla" trading system operative in the Bombay Stock Exchange. The bulls kept on buying and a price of Rs. 152 per share was maintained till the day of settlement. On the day of settlement, the Bear Cartel was taken aback when the Bulls demanded a physical delivery of shares. To complete the transaction, the much needed cash was provided to the stock brokers who had bought shares of Reliance, by none other than Dhirubhai Ambani. In the case of non-settlement, the Bulls demanded an "Unbadla" (a penalty sum) of Rs. 35 per share. With this, the demand increased and the shares of Reliance shot above 180 rupees in minutes. The settlement caused an enormous uproar in the market and Dhirubhai Ambani was the unquestioned king of the stock markets. He proved to his detractors just how dangerous it was to play with Reliance.

To find a solution to this situation, the Bombay Stock Exchange was closed for three business days. Authorities from the Bombay Stock Exchange (BSE) intervened in the matter and brought down the "Unbadla" rate to Rs. 2 with a stipulation that the Bear Cartel had to deliver the shares within the next few days. The Bear Cartel bought shares of Reliance from the market at higher price levels and it was also learnt that Dhirubhai Ambani himself supplied those shares to the Bear Cartel and earned a healthy profit out of The Bear Cartel's adventure.

After this incident, many questions were raised by his detractors and the press. Not many people were able to understand as to how a yarn trader till a few years ago was able to get in such a huge amount of cash flow during a crisis period. The answer to this was provided by the then finance minister, Pranab Mukherjee in the parliament. He informed the house that a Non-Resident Indian had invested up to Rs. 22 Crore in Reliance during 1982-83. These investments were routed through many companies like

Crocodile, Lota and Fiasco. These companies were primarily registered in Isle of Man. The interesting factor was that all the promoters or owners of these companies had a common surname Shah. An investigation by the Reserve Bank of India in the incident did not find any unethical or illegal acts or transactions committed by Reliance or its promoters.

Diversification

Over time, Dhirubhai diversified his business with the core specialisation being in petrochemicals and additional interests in telecommunications, information technology, energy, power, retail, textiles, infrastructure services, capital markets, and logistics. The company as a whole was described by the BBC as "a business empire with an estimated annual turnover of \$12bn, and an 85,000 strong workforce".

From beginning Dhirubhai was seen in high-regard. His success in the petro-chemical business and his story of rags to riches made him a cult figure in the minds of Indian people. As a quality of business leader he was also a motivator. He gave few public speeches but the words he spoke are still remembered for their value.

Questions :

1. Discuss qualities of Dhirubhai which made him a role model for new entrepreneurs.
2. Detail reasons of faster growth of Reliance group.
3. "Reliance took route of backward and forward integration for growth". Discuss issues and products involved.

CASE STUDY: Aditya Birla

The Aditya Birla Group is a multinational corporation based in Mumbai, India with operations in 25 countries including Thailand, Dubai, Singapore, Myanmar, Laos, Indonesia, Philippines, Egypt, Canada, Australia, China, USA, UK, Germany, Hungary, Brazil, Italy, France, Luxembourg, Switzerland, Bangladesh, Malaysia, Vietnam and Korea.

A US\$ 28 billion conglomerate, with a market capitalization of US\$

31.5 billion, over 50 per cent of its revenues flow from its operations across the world [citation needed]. The group is a major player in all the industry sectors it operates in. The Group has been adjudged the best employer in India and among the top 20 in Asia by the Hewitt-Economic Times and Wall Street Journal Study 2007. The origins of the group lie in the conglomerate once held by one of India's foremost industrialists Mr. Ghanshyam Das Birla. He bequeathed most of these companies to his grandson, Mr. Aditya Vikram Birla – the father of the current Chairman of the group, Mr. Kumar Mangalam Birla. Mr. Kumar Mangalam Birla is the grandson of Mr. Basant Kumar Birla, who heads his own independent business conglomerate. Several other members of the Birla Family, own and run their independent business groups.

Aditya Birla is organized into various subsidiaries that operate across different sectors. Among these are viscose staple fibre, non-ferrous metals, cement, viscose filament yarn, branded apparel, carbon black, chemicals, Modern retail (under the 'More' brand of supermarkets, and also under the Trinethra, and Fabmall brands until recently), fertilizers, sponge iron, insulators, financial services, telecom, BPO and IT services. The Group consists of four main companies, which operate in various industry sectors through subsidiaries, joint ventures, etc. These are Hindalco, Grasim, Aditya Birla Nuvo, and UltraTech Cement.

Non Ferrous Metals

The groups non-ferrous metals are under Hindalco. It is a dominant player in aluminum and copper. Its manufacturing locations are primarily in India, and it owns mines in Australia. On February 11, 2007, the company entered into an agreement to acquire the Canadian company Novelis for US\$6 billion, making the combined entity the world's largest rolled-aluminium producer. On May 15, 2007, the acquisition was completed with Novelis shareholders receiving \$44.93 per outstanding share of common stock.

Hindalco has also recently acquired Alcan's stake in the Utkal Alumina Project Joint venture in Orissa, India. Hindalco is a Fortune500 company. Hindalco makes alumina chemicals, primary aluminum, rolled products, alloy wheels, roofing sheets, wire rods, cast copper rods, copper cathodes and several other products. But the project has faced massive protests from locals. On 16th December 2001 three tribal people were shot dead because they were opposed to the project Grasim Industries Ltd.

Cement

The Groups cement business is under both Grasim and UltraTech cement. Together the two companies under the group account for a substantial share of the cement market in India. UltraTech cement comprises the cement business of L&T which was acquired by the group. UltraTech announced an increase in sales by 17% and Profit After Tax by 46% for the quarter ending September 30, 2007.

Carbon Black

The Group is the fourth largest manufacturer of Carbon Black worldwide. It operates out of facilities in Egypt, Thailand, India and China. It is a major supplier to several major automobile tyre manufacturers worldwide.

Textile Business

The Aditya Birla Group is the world's largest player in the Viscose Staple Fiber industry. It operates out of India, Laos, Thailand, Malaysia and China. It owns the Birla Cellulose brand. Apart from viscose staple fiber, the group also owns acrylic fiber businesses in Egypt and Thailand, viscose filament yarn businesses and spinning mills at several locations all over India and South East Asia.

The group has pulp and plantation interests in Canada and has recently invested in plantations in Laos. The Aditya Birla group is also a major player in the branded garments market in India. Its subsidiary, Madura Garments, is a major producer of textile fabric as well as the brand licensee of Louis Phillipe, Van Heusen and Allen Solly in India [citation needed]. It operates its own retail outlets in several cities in India and now planning to go to into Pakistan as well.

Telecom Services

Idea Cellular is now owned by Aditya Birla Group itself. Previously Aditya Birla Group held a 98.3% stake in Idea Cellular, a leading telecom operator in India. Idea Cellular started off as a joint venture with the group, AT&T and the Tata Group. However the stakes of the remaining partners was eventually acquired by the group. After an Initial Public Offering on the Indian Stock Markets, Idea Cellular now accounts for a third of the group's market capitalization.

Other Businesses

Apart from the above businesses, the group is a major player in industry sectors like Insulators, Fertilizers, IT (owning PSI Data Systems Limited), ITeS (owning Transworks and the Canadian BPO Firm Minacs), Chemicals, Mining, Sponge Iron, Financial Services (jointly with Sunlife) and more recently, Retail.

Philanthropy

The Group actively involves itself in several community development initiatives in particular around its manufacturing location. The group also supports development activities in areas like healthcare, education, sustainable livelihood, infrastructure and social causes. The group's philanthropic activities are guided by Mrs Rajashree Birla.

It works in 3700 villages, reaching out to 7 million people annually through the Aditya Birla Centre for Community Initiatives and Rural Development. It runs 45 schools and 18 hospitals. Aditya Birla group has entered into retail in the brand name of MORE.

4.3 QUESTIONS

1. Give in brief a growth profile of Aditya Birla in the development of Birla Group of Industries.
2. Explain the strategies followed by Aditya Birla in the growth of business.
3. What are the main reasons for the emergence of Aditya Birla Group of Industries in the global map.



BUSINESS PLANNING

Unit Structure

5.1 Introduction

5.2 Essentials of success of a business enterprise

5.3 Scope and Value of Business Plan

5.4 Questions

5.1 INTRODUCTION

Business planning is the process of deciding in advance in a business enterprise as what is to be done, who is to do it, how it is to be done, where is to be done and when it is to be done. It is the determination of a course of action to achieve the desired results. It bridges the gap from where we are to where we want to go. Business planning is a mental process requiring the use of intellectual faculties, imagination, foresight and sound judgment at the right time and at the right place. In this way, business planning is also an important concept of entrepreneurship. It gives answer to six pertinent questions, *i.e.*, what, why, where, how, who and when? The success of an entrepreneur depends on the right answer of all such questions on which his success or failure depends. Wrong answer means failure of the entrepreneur and total collapse of the business enterprise.

Economic planning is an activity of highly unique character. Every action of the entrepreneur is well planned as it is evident from the fact that where are production plans, marketing plans, financial plans, purchase plans, quality control plans, research and development plans and so on. This is done because of the necessity to ensure proper utilisation of human and material resources to achieve the desired objectives of the business enterprise. Without proper economic planning, the affairs of the business enterprise are most likely to be haphazard. Least important task may be done ahead of more important one or the same piece of work may be done by different individuals using different procedures or methods. There may be unnecessary repetition of certain business operations leading to gross wastage of time, energy and resources. In short, without economic plans, entrepreneur's action must become merely random activity, producing nothing but chaos. Hence economic planning is a must to achieve a consistent and coordinated structure of operations focused on desired objectives.

5.2 ESSENTIALS OF SUCCESS OF A BUSINESS ENTERPRISE:

Characteristics that are necessary for success of a business enterprise are as follows -

- **Long Term Involvement:** The commitment from the entrepreneur for longer period may be 5 to 10 years is necessary for conceptualisation, building and running an enterprise. Fly-by-night operator will not fit in building an enterprise.
- **Initiative:** The entrepreneur must have initiative to use the available resources and draw plan of action for all those who are involved in an enterprise.
- **Goal Setting:** An entrepreneur must be able to set realistic but challenging goals for himself as well as for others in the organisation.
- **Risk Taking:** An entrepreneur must be a learner from his failures and risk taking at every stage of the growth of an enterprise.
- **Administrative Ability:** Managing resources and running an enterprise calls for long hours of work for longer period of time and hence an entrepreneur be a man of ability of administration.
- **Problem Solver:** In the initial phases of an enterprise many teething problems do occur and an entrepreneur should be a creative problem solver to turn difficulties into advantages.
- **Motivator:** An entrepreneur builds up his team, educates them, keeps high level of motivation and also provide an environment for creative and focused to work culture.
- **Mental Ability:** An entrepreneur will be a man of high level intelligence, creative, positive thinking and decision maker with clear objectives in mind.
- **Communication Skills:** As a leader an entrepreneur communicates effectively with all concerned such as financiers, employees, customers, suppliers and all who are concerned with the new enterprise.
- **Good Human Relations:** Tactful and warm human relation is an important factor which brings success to an entrepreneur. Emotional stability and keeping himself as a model to others. Motivates the employees to put their best performance at all levels in the organisation.

The entrepreneurial behavior means the manners in which the entrepreneur deals with its total environment: internal and external, including physical and human resources and the society. The real entrepreneurial behavior is oriented towards innovation, achievement

motivation, and social responsibility. This behavior is different from the capitalist's behavior. The capitalist assumes a traditional or conservative approach. He believes in "safe-playing" while investing his money in the enterprises. He is concerned mainly with his share of interest on his investment.

On the other hand, entrepreneur loves to take risk and tends to establish a new enterprise and adopts a new technology, or a new product, or tries to find out a new raw material. He is always looking out for a new thing or a new method. He is a high achiever. He is guided mainly by achievement motivation.

A business plan is defined as a generally written document giving in detail all relevant internal and external elements that affect business and strategies for starting a new venture. A business plan is an important document which deals with all aspects of proposed new business. Planning is an ongoing process in any industry or business or business enterprise. It is more important for a new business. The preliminary business plan drawn initially goes evolving and refining as the entrepreneur learns more about market, the product, the management team and the fund requirements of the new venture. The business plan integrates the functional plans of different segments of the organisation such as, marketing, production, finance and human resources. The business plan also takes into account a time horizon of 2-3 years for a new venture. The business plan is also referred as "the road map or game plan of the organisation". The basic questions such as:

- What is the stage now?
- What are funds and means available with the entrepreneur?
- Who are investors?
- Who are suppliers?
- Who are customers?
- How to achieve the goals set by the entrepreneur?

There may be many possible ways to achieve the objective set. Each route will have its own plus points, minus points, costs and time frame. The example is given of that of a traveler who wants to reach say, Delhi from Bangalore. The traveler will have different vehicles in choice of roads, camping and so on. Depending on the choice the comforts, costs, time frame changes. The traveler may have control over some factors and many not have control over other factors. A traveler decides the course of his journey based on his pocket, time and other factors. Accordingly an entrepreneur also decides his actions for new enterprise based on how much money will be needed, existing resources or new resources, time frame and other factors to achieve the goal set by him. The business plan addresses a good number of questions specifically, in case of a planned new venture for multi-product and services organisation.

In preparing a business plan an entrepreneur takes help of experts in different fields such as, finance, legal, marketing, technical consultants for necessary inputs. Small-scale organisation take care of small-scale industries services made available by Govt. of India. For large organisations help is taken from reputed consultants for making an objective assessment of skills available within the organisation, skills to be hired and plan step-by-step the initial business activities. A business plan is prepared by the entrepreneur and is a written document so that it is made known to all concerned.

5.3 SCOPE AND VALUE OF BUSINESS PLAN:

The scope of the business plan has four elements namely, what is the venture, what is marketing perspective, the third perspective is what is the investor's view points and the fourth is socio-economic issues.

- The entrepreneur should decide and define what the venture is all about and what are the aims and objectives of the venture may be given in a written document. The nature of the product/s may be given.
- Any new enterprise should have aim to a particular segment of customers without customer orientation there will not be any viability of any enterprise. It is also seen that many entrepreneurs are carried away by product or technology and not customer orientation. The marketing focus and plans may be given. A consumer product or a new e-commerce business will have different focus. The size of the market, customer segmentation, competition and potential growth will have considerable impact on the business plan.
- Good financial projections by the entrepreneur for the new enterprise attract investors.
- The business plan also should address the socio-economic impact of the proposed new venture. To get the general acceptance of the public and government institutions.

The business plan is required to all personnel and organisations that help to build the new organisation namely, the entrepreneur, investors, employees, bankers, government institutions, customers, suppliers, consultants. The business plan document should be made based on the questions all these stakeholders may ask and address all their concerns. Each of the group will have their own view point and questions on the business plan of the proposed venture. The general questions that occur are: Is this good business? Will it succeed? Who are the customers? How the competition is met? How the funds are made available? How the business will be managed? and so on. To answer such issues, an entrepreneur should think from various view points.

Marketing Plan:

It is the key part of business plan since it details how the production services will be marketed that is, distribution, pricing, promotion and

activities connected with the marketing. The marketing plan of the business is based on the market data received in the market research activities. A detailed plan should be made by the entrepreneur to attract the investors. The marketing plans is to be revised annually based on the market feedbacks. The market plan should describe the market conditions, strategies proposed for positioning the products and services. It will also give description of pricing distribution and promotion policies.

Financial Plan:

Financial plan gives the projections of important financial data that determine the feasibility of the venture and financial investments required for the venture. The financial figures are drawn by the entrepreneurs from the forecasted sales and production and figures. The first year projections are made on month to month basis thereafter yearly projections are made. The second important business plan in the finance area is the cash flow statements for first three years of the new venture. The first year is critical. Business plan also includes the projected balance sheets and liabilities, investments by entrepreneur and other associates and earnings. The financial plan also should highlight the possible benefits for the potential investor.

Organisation Plan:

Organisation plan which is part of the overall business plan gives the type of ownership the people to be employed, the line of authority and the responsibilities of the various members in the new organisation. The entrepreneur should consider and decide the nature of new venture if it is proprietorship, partnership, private limited company or a public limited company or a co-operative venture. Accordingly the documentation be made. The organisational plans should include the organisation chart indicating the different profit centres, line of authority and responsibility among different managers in the organisation. To help organisational plan a study of the existing organisations in the industry along with the plus and minus points be studied.

Product Selection:

The success of an enterprise depends to a large extent on what is produces and sells. Product selection would reflect the nature, mode and prospects of the business in addition to revealing the qualities and philosophy of the entrepreneur.

There is no universally applicable formula for product selection. But the process of product selection should be based on objective criteria instead of mere intuition. The direction of product identification, product evaluation vis-a-vis the entrepreneur's resources and attributes can be organised to make it objective. The product ought to have a 'purpose' and 'social relevance'. It is essential to identify the specific purpose of the product to ensure a longer product life cycle. The purpose should be felt both by the entrepreneur and the user with equal intensity. The social

relevance enables a healthy marketing practice and community recognition.

The stages and techniques of product selection are summed below.

Product Ideas:

Every idea has relevance however wild or vague it may seem to be initially. In product selection, the idea formation is the first step. The idea which may pertain to any activity be formed out of mere accidental or deliberate observations of the entrepreneur or associates. Even a routine "sight" may help conceptualisation of a product.

Information from domestic as well as foreign publications such as newspapers, periodicals or media like Television, Video or Movie may provide product ideas. The ideas emanating from abroad could be converted into products with export potential or may be adapted to suit the domestic environment.

Well motivated family and friends are also useful in generating ideas. These ideas may emerge out of discussion or simple chat.

Government agencies involved in promotion of entrepreneurship would be helpful in generating ideas. One could also pick an item from the 1000 odd products reserved for the small scale sector. The project profiles published by agencies like S.I.S.I. (Small Industries Service Institute) are an important product selection guide as they also reveal comparative profitability of each product.

Vendor development cells of prominent enterprises enlist suppliers for all sorts of inputs, components and services as per specifications. Tenders for supply of equipment's, components and other inputs by private and public sector organisations are an important sources of product ideas.

Product and Self Introspection:

The second stage in product selection is consolidation through introspection. After proposing a product, attempts should be made to improve it through innovation. The same or a close substitute might already be available in the market. The new entrepreneur will find entry into the market difficult. It can be made easier by slightly differentiating the product where ever possible. A change in product design based on user preferences could be a good idea. In consolidating the product for being selected, its potentialities in terms of present and future demand be kept in mind.

The product introspection leads to self introspection wherein the entrepreneur considers his aptitude and weakness. It is essential to objectively assess the financial technical and marketing capabilities of the entrepreneur. Though not essential, it is desirable and generally advantageous to select a product over which the entrepreneur has some command. At the threshold of the final product selection, such an

objective assessment is highly essential. Characteristics of products may differ from one another. For instance certain products are “marketing” based demanding certain marketing traits in the entrepreneur. The entrepreneur should be a go-getter with an inclination towards marketing and personal relations.

Some products may be capital intensive. The entrepreneur should be endowed with or have access to adequate financial resources. Similarly, some products require technical and innovative skills in designing and manufacturing. The entrepreneur should have an instinct for application of technical expertise to product design and development.

These entrepreneurial attributes will help consolidate the product concept in addition to developing a wider base of knowledge to analyse and assess the product-market relationship.

Product Market Relationship:

An analysis of product market relationship will help further consolidate product choice. Broadly, products may be classified into (i) high value low volume, (ii) medium value and volume and (iii) low value large volume items. The high value type generally demand high technology and precision. They ensure a high rate of return on investment. The medium value type are ideal from the point of management of small units. The low value type, the volume tends to be high and margin low. They maximise profits through sales maximisation.

An extremely crucial factor is the stage of the product lifecycle. For every product, five lifestages can be identified. First, the product may be at an introductory stage. This happens when the product comes out of the factory. During this stage the product must register its existence with the end users.

Second, introduction is followed by growth wherein the product should generate its own demand (a sort of “support creating demand”). At this stage it is highly desirable to maintain quality and regularity of supply.

Third, the product establishes and second in the market and may become a market leader or one of the top few in the industry. This is the peak stage in the product life.

Fourth, every product, including the one which was a market leader, is likely to face a decline in sales turnover at some point of time in spite product quality and a sound marketing strategy. This may be due to change in taste and preferences and specific to the product or may coincide with a general recession trend in the industry.

Finally, the product may dip beyond any recovery which calls for abandonment of the product or its replacement by a substitute developed on the basis of the market trends.

An entrepreneur who is not introducing an entirely new product should avoid selecting a product which is passing through the fourth or fifth stage of the market cycle.

Product Evaluation:

This is the last step towards product selection. Every product should be evaluated very objectively without bias. At each stage of evaluation, the entrepreneur may assign relative desirability Ranks, which can be assessed with respect to the project feasibility. The desirability evaluation may be based on the stability and potential of the market, the enterprise position and the product process.

Stability of Market:

- Stability of market mostly depends on its characteristics such as the market is seasonal or regular, temporary or permanent etc. Product which is free from seasonal variations is preferable to that subject to variations. A product with a permanent or recurring demand helps form business routine.
- The market may be very small and confined to a locality or spread over a bigger region or the State. It could as well as be national or international markets.
- The market may be captive or open. A unit which is ancillary to a large enterprise will be assured of regular and routine market. However, such an exclusive dependence could be risky for a strike, lockout, marketing, management or financial crisis in the 'depending' unit will adversely affect the small unit.
- The product should be unaffected during any downward surge in the market trends. Commodities which are in regular use are less elastic to market fluctuations. Luxury goods with high profit margins are, however, highly market sensitive.

Market Potential:

After confirming existence and size of market, the enterprise should consider the distribution system. The question is how best the user can be reached before others do so?

Products requiring after sales service require special consideration. The prospects of future growth depend on the quality and promptness of the after sales service. If it cannot be organised, it is better to avoid such products.

If the product is an input to larger industries, the size of the supply order is significant. Larger tenders are more desirable to smaller ones.

Product with export potential or an import substitute will not be a good market. Such units are also entitled to many government incentives and subsidies.

Though a wider products range is good, it may not be feasible for a small producer to go in for the same. Large variations may secure added clients but will create multiple problems beyond the capabilities of a small producer.

Enterprise Position:

It is desirable to have an exclusive product which cannot be easily imitated. Uniqueness in the product is an important attribute for establishing product identity and growth.

Products with large gestation period demand altogether a different financial arrangement. It is generally advisable to have products which require lesser gestation period in the small sector.

A product that is subject to rapid technological change is not ideal for the small entrepreneur. A change in the technology may call for basic changes in the product design necessitating changes in capital investment.

It is desirable to select a product with larger value added. The value added is large when the unit retains most of the processes with itself.

Uninterrupted supply of raw materials by itself is important in addition to assessing the working capital requirements. Availability of the right type and quantity of labour is another important factor influencing product selection.

Product Process:

The strength of the production process determines the product development, regularity of supply, prices and the entrepreneurial margin. The nature, source and prices of equipment and its availability are important factors to be considered. The machinery will need regular maintenance and repairs. The nature and sophistication of machines depend on the nature of product, the process and the quality standards expected. The facilities should be available at reasonable cost. Inadequate maintenance facility may lead to down time and loss of machine productivity.

The enterprise in general and each product in particular needs infrastructural facilities like power, water, transport, etc. This should be borne in mind while selecting the product and location. Further, certain products create pollution. The disposal of such pollutants may be costly. It is desirable to have simple production process and products with lesser and manageable cost of waste disposal.

SWOT Analysis:

The discussion on product selection may be summed up in terms of a “SWOT” analysis. “SWOT” stands for Strength, Weakness, Opportunities and Threats. For a small entrepreneur, the strength lies in the form of an

assured and continuous supply of inputs, sound finance, stable market, good connections and support among others. Weakness may include supply interruptions, rising input and labour costs, irregular market, low labour productivity and financial problems. Opportunities could be in the form of new market, export orders, import replacement, government incentives budgetary concessions, etc. Threat could take the shape of unexpected entry of competitors, including well established units with brand names, introduction of cheaper or better substitutes, change in the taste preferences, rates of obsolescence of technology restrictions by government, to mention a few. The entrepreneur should organise his resources to improve strength, reduce weakness, capsize opportunities and anticipate threats.

After listing the positive and negative points of the product to be selected, the entrepreneur ought to ask the following questions to himself:

- Can I produce it?
- Can I market it?
- Is it worth producing and marketing?

If the answers are in the affirmative you should go ahead without any hesitation.

Let us end this Lesson with a quotation from Akio Morita, the cofounder of the world renowned electronics company SONY. Japan: “being able to make unique products are not enough to keep a business going. You have to sell the products, and to do that you have to show the potential buyer the real value of what you are selling”.

5.4 QUESTIONS

- Define the term ‘Planning’. Discuss importance and objectives of planning in administration of the business.
- What do you mean by promotion of a venture? Explain the characteristics of promotion in brief.
- What is meant by Opportunity Analysis? Describe in brief the main factors of opportunity analysis.
- What is a business idea? Why it is important in entrepreneurship?
- Explain how consumers and existing companies help in generating business ideas.



ENTREPRENEUR AND THE ENVIRONMENT

Unit Structure

- 6.1 Introduction
- 6.2 Political Environment
- 6.3 Sources of Opportunities Analysis
- 6.4 Promotion of a Venture
- 6.5 Questions

6.1 INTRODUCTION

Business environment refers to the conditions and forces under which the business enterprise is operated smoothly. In other words, the Business Environment includes legal conditions, economic policies, level of competition, changing priorities of the customers, changing technologies etc. These situations or conditions decides about the survival, growth and development of the business. The entrepreneurs had to do whatever the environment allows him to do.

The environmental forces which influence the growth of entrepreneurship are as follows:

6.2 POLITICAL ENVIRONMENT:

This includes the political/administrative system designed to govern country. It also includes the political ideologies of the party in power. The Janata Government for instance, showed a marked preference for tiny, cottage and small scale industries. Similarly, the administrative machinery, including the decision making process in the government departments could promote or hamper entrepreneurship. Where decision making is highly centralised, the entrepreneur could get frustrated if his applications needed to go through several levels of administration before a decision were to be taken. The concept of a “Single Window Clearance” as a prevalent in Gujarat and Maharashtra cuts down time and money for the entrepreneur as it provides for proper coordination of the various authorities involved in the decision making process.

Economic Environment:

The economic system in which the entrepreneur has to operate and the economic policies pursued by the Government can encourage or hamper entrepreneurship development. We shall discuss in this lesson at a later

stage the impact of the economic system on entrepreneurship development. The economic environment includes, apart from incentives and concessions, the development of infrastructural facilities, financial assistance, marketing support, policies of tax concessions, preferential buying and reservation of specific items for being manufactured by the small scale units. It also includes protection to the small scale units from the competition from the large firms, who have greater financial, technical and other strengths.

Social Environment:

A business venture is a social institution which has to interact with various groups in society, such as the consumers, the workers, the suppliers, the government and the public at large. Consumers generally expect the entrepreneur to provide good quality of goods and services at reasonable prices, which would require the entrepreneur to keep his costs low and his level of service high. Suppliers would expect prompt payment for their supplies, which would require the entrepreneurs to keep cash balances sufficiently high to meet demands for payments. Workers would expect decent wages for their efforts and also to be compensated adequately for rise in the cost of living. This would naturally push upwards the costs of the entrepreneur. The Government would expect the entrepreneur to be fair in his dealings, to make a profit but to be law abiding and to pay all the taxes that are due promptly. The society at large expects the entrepreneur to be fair in his business dealings, to make a profit for himself without ignoring the aspirations of the society. He would be pulled up if he were to cause nuisance, such as noise from his factory or pollution or hazards to health and safety of people living in the vicinity of the factory. The interests of the different groups in society might conflict, the entrepreneur, has to adjust such conflicts even “manage” them. An established entrepreneur, apart from adjusting to these environmental forces, is able to influence and give a sense of direction to these forces.

Legal Environment:

This includes laws and regulations affecting the formation and management of a business. The legal framework in our country is a very intricate, and rigid even large enterprises with all the legal expertise at their disposal find difficult to comprehend and comply with. Many pieces of legislation contain some provisions seeking to exempt a small scale business from the operations of some of the requirements of the enactments. In spite of this concession, the list of laws affecting a small scale business could be a formidable one.

Cultural Environment:

It was believed, until recently that culture has a predominant influence on the choice of a vocation and therefore on entrepreneurship. For example, a comparative study was undertaken in the West of Catholics and the Protestants with reference to their family upbringing, religious beliefs and attitudes to explain why the Protestant countries tended to produce more

entrepreneurs than the Catholic countries. Subsequent studies have shown that religion and race do not influence entrepreneurship. Today it is not uncommon for a Brahmin boy to be a businessman (instead of taking up the traditional vocation of priesthood). We do however, find that certain communities like the Marwaris have been highly entrepreneurial. They have also developed a closely well knit set of institutions to promote entrepreneurship among the members of the community. Such developments have not taken place among the members of the other communities.

Technical Environment:

Technical development and application of technology supports the growth of entrepreneurship. Entrepreneurs breed in the research and development laboratories of hitech companies. The research scientists in these companies often come out with new ideas; their own employers are not enthused about these ideas and would be unwilling to pump in money required to develop these ideas further. The scientist strongly feels the ideas has a potential. He decides to get it alone, and with some financial and infrastructural support. He is able to realise his dream. Technological environment not only gives new product ideas, but also throws up new processes, new uses for an existing product, new sources of raw materials. Sometimes even waste is converted into useful products by the application of appropriate technology.

The environment, particular the external environment is dynamic. External environment means those factors on which the entrepreneur has no control, such as, economic, social, technological, competitive, suppliers, customers, and marketing etc. External marketing analysis is an organised process under which the analyst analyses those factors which affect the external development of a business organisation or entrepreneur, such as, economic factors, social factors, technological factors, competitive factors, political factors and market factors etc. Under external environmental analysis, an analyst collects necessary information and figures about the above factors and evaluates as well as analysis them. On the basis of this study, necessary changes and modifications are done as to targets, objectives and business strategies of the business enterprise. Forecasting is also done on the basis of external environmental analysis.

Factors Affecting External Environment:

Entrepreneurship does not emerge and grow spontaneously. It is dependent upon several factors both internal and external. Internal environment consists of organisation's own resources in functional areas. External factors include economic, social, technological, competitive, political and psychological factors etc.

The important factors which affect external environmental analysis are as follows:

- **Economic Factors:** The economic environment exercises perhaps the most direct and immediate influence on business environment. They

include capital, labour, raw-materials and markets etc. Further, type of economy whether developed, developing or underdeveloped, rates of savings and investment, growth rate of G.N.P. per capital income, volume of exports and imports, balance of payments position, price level, rates of inflation, deflation, and reflation, means of transport and communication also affect the economy of the country. For example, capital is one of the most important prerequisites for establishing a business enterprise. It is regarded as the lubricant to the process of running a business enterprise. The new economic policy of liberalisation, privatisation and globalisation has given impetus to the development of trade, business, commerce and industry in our country. The analysts are required to study the effects of these economic factors on the economy of the country and give necessary suggestions for the improvement.

- **Social Factors:** Social factors in a country exercise a significant impact on the emergence of entrepreneurship. Social factors in a country determine the extent and level of industrialization, as they influence, the demand of a product or service at a given point of time. Social factors are bound to have deep influence on consumer taste, temperament, life and living. They include social mobility, social security, social values, family traditions, customs, culture, traditions, spending habits, level of education, size of population, density and sex-ratio of population, spending habits, speed of urbanisation etc. The analysts are required to have a detailed social environmental analysis and make necessary suggestions for their improvement.

- **Technological Factors:** The most dynamic force, shaping entrepreneurs destiny is technology. Technological factors in any country also exercise a significant influence on external environmental analysis. Technology means method, procedure, process or system of production. Technology is not fixed but it is always changing. New technology will mean new ideas, new products and new marketing efforts. This requires the entrepreneur to keep any eye on the fast changing technology. Every new technology is a force for create work. Change in technology may affect production and distribution of goods. For example, recent Supreme Court order to run buses on compressed natural gas (C.N.G.) in place of petrol or diesel in Delhi has affected the transport business in Indian Automobile industry with new technology have great demand of buses with new technology. On the contrary, the demand of buses with old technology have considerably reduced. Hence a firm with old technology can hardly service in the modern economic world. Under these circumstances, analysts are compelled to make necessary improvements in the technology. For this purpose they conduct external environmental analysis. Technological environmental analysis leads to (i) Increase in production capacity (ii) Economy of resources, (iii) New discovery, researches inventions in the field of production and resources, (iv) Increase in competitive power, (v) Improvement in quality, (vi) cost reduction, (vii) Increase sales, (viii) Improvement in the standard of living, (ix) Innovation and (x) Increase in profits etc.

• **Competitive Factors:** Competitive factors also affect external environmental analysis. Competition play an important role in the conduct of business enterprise. An entrepreneur has to plan and make necessary changes in his business activities in accordance to the behaviours of his competitors. Competition may be of the following types:

- Desire competition
- Genetic competition
- Product size and form competition
- Brand competition
- Quality competition
- Price competition
- Market competition

• **Political Factors:** Political factors also influence external environmental analysis. Political stability is essential for the growth and development of business and industry. Political unrest and disturbed law and order situation in a country is a threat to industry, trade and business in a country.

Political stability leads to economic stability and economic stability leads to growth and development of trade, commerce, the development of industry and business. It also encourages foreign investments. The Government can adopt long term monetary and fiscal measures. It also develops confidence among investors.

• **Supplier Factors:** Supplier factors also influence external environmental analysis. For smooth running of industry, supply of raw-materials, spare parts and other requirements, is essential at the right time, in right quantity, at the right place, the right price and of the right quality. Failure on any front will affect the industry adversely. For example, if the supplier does not supply raw materials at the right time and of the right quality, it will lead to reduction in production and decrease in quality. On account of these two factors the entrepreneur is likely to lose the requisite market. Hence it is necessary that the analysts to conduct external environmental analysis in the field of supply of raw-materials and spare parts.

Thus study of external environmental analysis is necessary for the successful conduct of the business activities. External environmental analysis opens up fresh avenues for the expansion of entrepreneurial activities. The entrepreneurs will come forward with new ideas and with new ventures when they find the external environment suitable to their enterprises and advantageous. An acquisition of knowledge about the changing external environment will keep entrepreneurs dynamic in their

approach. It is possible only with the conduct of external environmental analysis.

Opportunity Analysis: An entrepreneur must identify business opportunity to do something new and to earn heavy profits. For example, Government may offer incentive to increase exports by reducing export duty on steel to U.S.A., Japan and Germany. Naturally the steel manufacturers and traders would like to take advantage of this chance by exporting steel to these countries in huge quantities and thus earn huge profits.

Opportunities analysis means assessment of the strengths and weakness of the opportunities or chances in business so as to take advantage of a given situation. For example, Government decides to establish a sugar factory in Kolhapur. You immediately purchase sugarcane in heavy quantity so as to sell the same to the sugar factory and thus earn huge profits.

6.3 SOURCES OF OPPORTUNITIES ANALYSIS

- **Market Demand Analysis:** The success of a business enterprise depends not on the amount of goods produced but on the amount of goods sold in the present competitive economy. Goods are produced not for own consumption but for marketing so that reasonable profit may be earned after providing satisfaction to the customers. The more is the demand of a product in the market, the more shall be the speed of the progress of a business unit. Even the size of the project and technology to be used depend very much upon the demand potential. Hence it is said that the modern entrepreneurs pay more attention on the creation of demand of goods as against the production of goods. Market demand analysis involves the following:

- (i) Estimation and analysis of demand potential short term as well as long term, present, and past and future demand both in quantitative and qualitative terms.
- (ii) Distribution and marketing channels and their promotion.
- (iii) Present sources of supply and the existing competition.
- (iv) A description of the market of the goods to be produced or service to be provided.
- (v) Supply analysis short term and long term, present, past and future supply in quantitative and qualitative terms.
- (vi) Export possibilities.
- (vii) Study of changes in the taste, likings and needs of consumers.
- (viii) Government policy towards demand and effect of price fluctuations, and social as well as economic factors on demand.
- (ix) Mode of transport and rates of transportation.
- (x) Possibilities of increase or decrease in demand.

- **Technical Analysis:** Next step taken towards opportunities analysis is to ascertain the technical feasibility of the project. If the technical analysis indicates that project is not technically feasible, then there is no sense in pursuing the idea of establishing venture. For example, A intends to establish a computer manufacturing unit in Delhi. For this purpose necessary machinery and expertise is to be imported from Germany. Indian Government has imposed restricts on the import of computer machinery from Germany. In this case, there is no sense in pursuing the idea of computer venture in Delhi. Ordinarily, for establishing a manufacturing unit technical feasibility report is prepared by an expert. It provides necessary information on various technical alternatives, methods of production available, nature and size of the plant, production process and size of the project etc. Generally, the technical analysis should include the following:

- Description of the goods to be produced or services to be provided indicating its physical, mechanical and chemical properties related, if any,
- Size of the plant and production schedule,
- Plant layout including estimated cost of land and building,
- Location of the plant and necessary justification for locating the plant in particular area.
- Details of production technique, technology to be used, process and method etc.
- Details of labour required such as technical, skilled and unskilled and its availability.
- Details of raw material required such as its availability, qualities and quantities, sources of their supply and their costs.
- Power Nature, kind, quantity and use of.
- Capacity of the plant required as well available, estimating changes etc.
- Details of the process of production showing detailed flow chart and necessary justification for selection of the particular process.
- Method of waste disposal, its uses and necessary permission for its disposal from concerned authorities.
- Total estimated cost of the project.
- **Financial Analysis:** Financial analysis is undertaken to determine the profitability of the venture business and the financial resources covering the cost of the project, cost of raw-materials, technical cost and the cost of marketing the goods etc. Ordinarily, the financial analysis should cover the following areas.

- Total cost of the project including cost of land, building, machinery, equipment, raw-material, cash flows, financial projections, etc.
- Volume of funds required on long term and short term basis and their sources.
- Period for which the funds are required.
- Seed capital, venture capital, margin money, subsidy, soft loans from the Government/financial institutions.
- Return on investments, return on equity, break even analysis.
- Repayment capacity keeping in view future profit generation pattern.
- In case of public utilities, social benefit analysis.
- **Resources Analysis:** The entrepreneur has to see whether sufficient resources are available for the establishment of business venture. This covers procurement of land, construction of building, erection of machinery, equipment, technology, manpower, raw- material, location and layout etc.

Resources may be further categorised as:

- **Physical Resources:** They include Premises, supplies of raw-materials, tools, equipment, machinery etc.
- **Technological Resources:** They include Technical know-how, prototypes designs, technical training etc.
- **Financial Resources:** Funds needed for physical requirements, technical facilities and inputs for the venture.
- **Human Resources:** Skilled and unskilled workers, managerial personnel.
- **Marketing Resources:** They include Dealers, wholesalers, stockists, agents, salesman, marketing personnels, etc. Before taking any of the resources, it is necessary to assess the requirements.
- **Business Environment Analysis:** A successful entrepreneur is always in search of new opportunities. But it is not an easy task. Before establishing any new venture, it is necessary to conduct, business environment analysis of that area.

Main factors affecting business environment analysis are as follows:

- (I) Industrial Policy
- (ii) Price Control Policy
- (iii) Quality Controls

- (iv) Essential Commodities Act
- (v) Foreign Trade Policy
- (vi) Distribution System
- (vii) Tax Burden Evaluation
- (viii) Position of Existing Industries and their Profitability
- (ix) Incentives, Rebates, Grants, Subsidies, and Concessions
- (x) Economic and Social Tendencies
- (xi) Importance of the Business Venture in Government Economic Plans

- **Evaluation Analysis:** In this stage, a final view on the proposed business venture is taken which is based on the combination of factors like technical financial, commercial, managerial and operational. Weakness or deficiency in any project does not prepare the ground for its rejection but care is taken to initiate suitable action to minimise its impact on the project. In order to overcome or minimise the impact of deficiencies on a project, entrepreneurs are advised to revamp the project or take necessary precautions.

If the opportunities analysis is *prima facie* satisfactory, the entrepreneur should take necessary steps to promote the business venture.

6.4 PROMOTION OF A VENTURE:

Promotion of a venture is the process of starting an enterprise. Promotion begins when an idea of forming or establishing a venture is conceived either by a person or by a group of persons and thereafter, go for identifying the scope, nature and size of the proposed venture. For this purpose, they collect necessary information from various sources, detailed investigation is made, and lastly a final decision is taken from various available alternatives to promote a venture provided the investigation show that the idea can be commercially exploited. Thereafter necessary steps are taken to start the venture by assembling the necessary inputs, *i.e.*, land, building, machinery, equipment, labour etc. and raising requisite required finance. This whole process of conceiving the idea, its detailed investigation, assembling the necessary inputs and raising finance is known as promotion. The person who brings the venture into existence is called promoter, *i.e.*, entrepreneur.

Definitions of Promotion: *The definitions of promotion* are as follows:

- **According to C.W. Gerstenberg,** “Promotion may be defined as the discovery of business opportunities and subsequent re-organisation of funds, property and managerial ability into a business concern for the purpose of making profits therefrom.”

- **According to Henry E. Hoagland**, “Promotion is the process of creating a specific business enterprise. The aggregate of activities contributed by all those who participate in the building of the business constitutes promotion.”
- **According to E. S. Mead**, “Promotion involves four elements, *i.e.*, discovery, investigation, assembling and financing.

Stages of Promotion of a Venture: The main stages of promotion of a venture are as follows:

- **Conceiving or Discovering the Idea of the Venture:**

It is the first element/stage in the promotion of a venture. The process of promotion begins with an idea of establishing a venture. The idea may relate with the establishing a new business enterprise whether manufacturing, trading or rendering services. Before establishing a venture the idea must be thoroughly analysed as many new ventures fail because the conceived or discovered idea was based on false notions.

- **Feasibility of the Idea:**

The second stage of promotion of a venture is to investigate and verify the idea conceived by the entrepreneur/promoter. He must collect necessary facts and information about the idea so conceived or discovered and test its technical feasibility and commercial and financial viability. In this connection, he may take the help of engineers, financial experts, marketing research experts and leading persons already engaged in the venture.

- **Assembling:**

Having discovered, investigated and verified that the idea conceived is feasible, viable and profitable the next step is to translate the idea into a reality. This will involve the efforts to assemble the basic requirements, such as, land, building, machinery, equipment, patent rights etc. At this stage, the entrepreneur also plans size, layout and location of the venture.

- **Financing:**

After discovery, investigation, verification and assembling the next step is financing *i.e.*, making arrangements of the requisite finance for establishing and starting the venture. It includes planning of capital structure, time, mode, type and sources *i.e.*, short term, medium term and long term capital. In this connection, the entrepreneur also contact the bankers, underwriters, brokers and issue managers etc.

- **Compliance of Legal Formalities:**

Next step in the promotion of a venture is the compliance of all legal formalities for the establishment of the venture, such as, to decide the place of the registered office, if any, to decide the name and get it approved from the relevant authority, to prepare the necessary documents

for the registration of the venture, to appoint the competent staff including managers, solicitors, accountants, engineers and to get necessary licenses etc.

- **Registration of the Venture:**

After completing all necessary formalities the next and the last step in the promotion of a venture is to get the venture registered from the competent authority.

Setting Up a Small Business:

The steps involved in the setting up of a small business venture are as follows.

- **Product Selection:** The selection of a product for starting an industry is very important decision to be taken by the entrepreneur. It relates to the profitability, prospects and growth of the unit. Therefore it is essential to advise entrepreneurs on product selection and to guide them in making a wise investment decision. Here are a few points/criteria which may help in selecting the item for the proposed small scale unit.

- **Reserve Items:** Government of India keeps certain items reserved for exclusive development in the small scale sector.

These items include electrical parts, electronics items, ceramics, leather textiles etc.

- **Government Purchase Programme:** Assess if the product is being purchased by the Government through the DGS&D, large public sector undertakings or any other organisation. A large number of items are to be exclusively purchased from small scale units. A list of such items will be available with the Director, Small Industries Service Institute, the Directorate of Industries or the District Industries Centre.

- **Ascertain the Market Demand for the Product:** Quantity/Value, Local market, marketability within the state, outside the state/country, demand supply gap etc.

- **Material Resources:** Agricultural, mineral, forest, animal husbandry, fishery etc. availability of local raw materials.

- **Human Resources:** Availability of skilled, unskilled and managerial personnel.

- **Requirement of Foreign Market:** Select a product having export potential.

- **Import Substitute:** Import substitute products are mostly preferred by the Government for providing assistance.

- **Ascertain the Possibility** of setting up of an ancillary industry. The public sector units and large units in the private sector require a large

number of items which they would be willing to purchase from small scale units if quality and regularity of supplies can be ensured.

- **Feasibility study to Product Selection:**
- **Technical Viability:** Determination of machinery and technical skills required to manufacture a particular product.
- **Economic Viability:** of the proposed scheme after taking into consideration the costs involved in procuring the infrastructural facilities, profitability etc.
- **Location and Infrastructure:** Government declared industrially backward areas, power, water, transportation, trading, centre, testing facilities etc. must be kept in mind. Likewise, the entrepreneur must be aware of the items on the banned lists. From time to time, the Government discourages certain items depending on the extent of competition and the socioeconomic factors. The details about the banned items will be available from the District Industries Centres.
- **Total Capital Investment:** How much will be own investment and how much will have to be borrowed.

Besides these, the entrepreneur may also consider the following points while selecting the items:

- His qualifications, knowledge and experience.
- His family background.

The Director, Small Industries Service Institute or The Directorate of Industries or the District Industries Centres can provide guidance in product selection.

- **Preparation of a Project Report:** Before preparing a project report, the entrepreneur has to ask and answer the following questions:
- What is the product of the service or the line of business? This is the most important question. In finding an answer to this question, the following approach is recommended:

New Product v/s Existing Product

- better in all respects at the same or cheaper price
- at cheaper price
- What are the marketing prospects?
- geographical area, class of customers
- present supply and demand
- future trends in demand

- scope
- What is the production capacity or size of the business to be set up?
- scope for marketing
- technical minimum
- capacity to invest
- What is the manufacturing process?
- parts and components to be bought
- parts and components to be made
- What are the production facilities required?
- open area, covered area
- plant machinery and equipment
- tools dies jigs and fixtures
- furniture and fixtures, office equipment
- consumable stores, spares for machines packing materials
staff and labour, their skills
- utilities, such as power, light fuel and water
- What is the total investment?
- fixed assets, working capital, preoperative expenses
- how much owned and how much borrowed
- What are the probable financial results in a year?
- What is the return on investment?

Finding answers to these questions will make the entrepreneur collect facts, analyses them and end up with an acceptable project report.

- **Deciding on the form of Organisation:**

The entrepreneur has the choice of the following forms:

- (a) Sole Proprietary Concern
- (b) Trust
- (c) Partnership Firm
- (d) Cooperative Society

(e) Hindu Undivided Family

(f) Private/Public Limited Company

The selection of the form of business depends on the following factors:

- (i) Size of the project
- (ii) Level of investment by the promoters Income (iii) level of the promoters
- (iv) Fiscal measures of the government which have an impact on the functioning of the organisation
- (v) Liability of the owner

• **Selecting the Location and Obtaining Premises:**

The following checklist should help the prospective entrepreneur to select an appropriate location:

- Size and source of capital investment.
- Availability of raw materials.
- Availability of skilled and unskilled labour.
- Nearness to market.
- Socioeconomic climate.
- Infrastructural facilities, viz., power, water, road, railway, communication, banking, housing, education, medical, recreation etc.
- Incentives, subsidies and fiscal policy of the Government.
- Location of similar units.
- Policies of government development agencies.
- In addition, the personal preferences of the entrepreneur could be an importance.

The entrepreneur could obtain a plot of land from:

- Government Industrial Development Corporation (viz. MIDC in Maharashtra).
- Industrial Cooperative Societies.
- Private Parties.

The MIDC for example helps in providing plots on lease with roads, electricity, water connection etc. Even sheds constructed on these plots are available. The advantage of obtaining plots/sheds from the Government

agencies is that there would be no problems later on regarding the title to the property. Besides it becomes easier to deal with the financial institutions for obtaining loans since there is no uncertainty as to the title of the property.

It is possible to obtain plots/sheds in Industrial Cooperatives. However, before obtaining such plot/shed. It is necessary to become a member of the cooperative society.

It is possible to obtain plots/sheds from private parties. It is likely that these were agricultural lands before being offered to the industrial unit. A “conversion” of the agricultural land into industrial land is required and a NO OBJECTION certificate has to be taken from the Government. Financial Institutions generally require a Title report tracing 40 years history in respect of private land. All this is a cumbersome, time consuming, process and the entrepreneur would be wise to go in for a government allotted plot/shed.

- **Water and Power Connection:**

Where the entrepreneur goes in for government allotted plots/sheds, generally the water and power connection are granted by the agency concerned. In other cases, the entrepreneur has to approach the concerned Municipality/Town Authority/Electricity Board for the purpose.

- **Registration:**

The entrepreneur will after completing the preliminary steps, register with the State Directorate of Industries, through the District Industries Centre. There is no statutory obligation to register; but it is in the interest of the entrepreneur to get himself registered.

The registration is done in two stages:

- Provisional Registration
- Registration
- **Provisional Registration:** This enables the entrepreneur to take necessary steps to bring his unit into existence. A provisional registration is valid for one year in the first instance and could be renewed for a further period of one year, in two six monthly extensions when the entrepreneur provides proof that he could not complete the necessary formalities. If permanent registration is not obtained within the period of the validity of the provisional registration (or its extended validity period) the provisional registration is automatically canceled.

Provisional Registration is granted within a period of seven days after the receipt of an application. Provisional Registration helps the entrepreneur to:

- apply for a shed on an industrial estate/site in an industrial area/construction material
- apply to municipal or authority for permission to construct a shed
- apply for a power connection
- apply for financial assistance to the MSFC etc.
- apply to the NSIC for hire purchase facility for machinery
- make firm arrangements for working capital requirements with the banks and financial institutions
- obtain sales, excise duty etc. registrations
- obtain essential certificate from the Directorate of Industries for import of raw materials.
- **Registration:** When the entrepreneur has taken all steps to set up the unit, i.e., the factory building is ready, power connection is obtained, machinery is installed etc., he can apply for the registration of his unit.

The District Industries Centre will inform the entrepreneur, within seven days of the receipt of his application, the date and time for inspection of the unit. During the inspection, an assessment of the installed capacity of the unit will be made. After inspection, a Registration Certificate is issued by the Directorate of Industries within one month of the receipt of the application.

All registered units must submit half yearly reports of raw materials received / issued stock on hand production and sale to the Directorate of Industries in triplicate. Failure to submit such returns within the prescribed period will be a ground for refusal to sponsor the applications for import/allocation of raw materials.

- **Registration with Other Authorities:** The entrepreneur must familiarise himself with the provisions of a number of statutes like the Factories Act. Sales Tax and Excise Laws which require some sort of registration formalities to be completed.

Legal requirements for establishment of a new unit:

Once an entrepreneur becomes aware of the need, concept and role of a new unit, he takes a new number of legal steps to establish a new unit. In this connection it should be noted that everyday a number of entrepreneurs take decision of establishing a new units but hardly few of them are successful in getting it properly established. It requires the compliance of a number of concrete legal formalities.

For establishment of a new unit, the following legal requirements are necessary:

- **License for Establishment of a New Unit:**

The first and the foremost step to be taken for establishment of a new business unit is to take from the relevant authority either from the Central Government or from the State Government, as the case may be. In this connection it must be noted that as per the new Industrial Policy declared on 24th July, 1991, no license either from the Central Government or the State Government is required for the establishment for a small scale industrial unit. Industrial units employing less than 100 workers and having fixed assets less than 10 lakh are not required to obtain any license under the Modified Industrial (Development and Regulation) Act, 1951. Moreover, under the New Industrial Policy of Liberalisation and Globalisation, no new small scale unit is required to take any license for establishment of small scale industry either from the Central Government or the State Government. However, Municipal License is to be taken. For example in Mumbai it is necessary to obtain License, from Shop and Establishment Section of BMC. If the business is to be established in the limit of Mumbai Municipal Corporation area.

- **Clearance from Pollution Control Board:**

Now-a-days pollution has become a grave problem for the entire world. Pollution is of different kinds, such as, air pollution, water pollution, sound pollution, etc. An entrepreneur has to obtain pollution clearance certificate from the Pollution Control Board under the water (Prevention and Control of Pollution) Act, 1974 and Air (Prevention and Control of Pollution) Act, 1981.

- **Provisional Registration Certificate:**

An entrepreneur, who intends to establish an industry, has to obtain a provisional registration certificate from the district industries centre of the state concerned. At the first instance, it is issued for a period of one year which can be further extended for a period of six months each for two terms, in case the unit is not in a position to start production due to the circumstances beyond his control.

Provisional Registration Certificate entitles the entrepreneur : (i) To apply for a built up shed or a plot in an Industrial Estate, (ii) To apply for municipal licenses, (iii) To apply for power connection, (iv) to apply for financial assistance from bank and other institutions.

- **Permanent Registration Certificate:** After the issue of Provisional Registration Certificate, if the industrial unit has actually started production or is about to start production, permanent registration certificate is issued.

- **Registration Under the Factories Act, 1948:** If the entrepreneur intends to carry on manufacturing process by employing 10 workers or more with the aid of power or 20 workers without the aid of power, he is required to get himself registered and obtain license under the Factories Act, 1948 from the State Government concerned.
- **Notice by the Occupier under the Factories Act, 1948:** In case, if the entrepreneur is required to obtain license under the Factories Act, 1948, he is also required to give 15 days notice in the prescribed form to the concerned factory inspector before occupying the factory to start production.
- **Obtaining Power Connection:** There are two categories of power viz. (1) The Low Tension (LT), and (2) The High Tension (HT). A consumer can avail LT only if the connected load is 75 HP and below. In respect of the cases where the connected load is between 75 HP and 130 HP the consumer has the option to avail either LT supply or HT supply. If the connected load exceeds 130 HP the unit is classified as HT consumer. Most of the small scale units fall under the LT category. To get power connection, the New Entrepreneur has to make an application to the Assistant Divisional Engineer, Tamil Nadu Electricity Board, the LOAD APPLICABLE for the new unit would be decided. The New entrepreneur may have to pay security deposit amounting to three months power connection. To avoid delay in getting power connection, formal application may be given when step is taken.
- **Application for Water Connection:** The entrepreneur has to apply to the local municipal authority for water connection to ensure adequate water supply.
- **Registration with Sales Tax and Income Tax Authorities:** In case the entrepreneur is engaged in trading business he has to obtain sales tax registration number from the State Government and, if necessary, from Income Tax Department as well.
- **Registration with Excise Department:** In case the entrepreneur engaged in manufacture of certain goods on which excise is levied by the central government, he is required to get registration with Excise Department.
- **Registration of Trade Mark:** If the entrepreneur is manufacturing goods, he should get his trade mark registered so that other entrepreneurs may not sell the goods, under the same trade mark. For example, Colgate, 555, coca cola, etc. Once the goods become popular the entrepreneur will command goodwill. If his trademark or brand is registered nobody will be able to copy his trademark. Application for trademark registration will be made in the prescribed form with the Registrar of Trademarks of the state concerned.

• **Registration of Design:** An entrepreneur can get his patent or design register so that no other entrepreneur copy his design. Application for registration of design has to be made in the prescribed form to the Controller of Patents and Design.

6.5 QUESTIONS

- What is the contribution of social environment in entrepreneurial development? Explain.
- Describe the significance of social environment in the development of entrepreneurship.
- What is contribution of economic environment in entrepreneurial development?
- Describe the role and significance of economic environment in the development of entrepreneurship.
- What is meant by external environmental analysis? State and explain the factors affecting external environmental analysis.
- What is meant by opportunities analysis? Discuss the sources of opportunities analysis?
- What is meant by promotion of a venture? Explain the stages in the promotion of a venture.
- Describe in brief the legal requirements for establishment of a new unit.



ENTREPRENEURIAL MODELS

Unit Structure

7.1 Introduction

7.2 Decision on the Mode of Entry into Overseas Markets

7.3 The project export may include

7.4 Venture Capital Funding

7.5 Questions

7.1 INTRODUCTION

A Small business entrepreneur must choose a suitable area where he considers something to do in an innovative manner. Entrepreneurship exist in all areas of business. It is the entrepreneur who has to identify opportunities for his business venture.

Small business firms provide enormous scope for the growth of entrepreneurial activities. Entrepreneurial activities are concerned both with making and selling the products. An entrepreneur has greater opportunity and vast scope in selling a service rather manufacturing a product. Manufacturing activities have better scope if they are carried out on large scale. The entrepreneur can achieve better results if the size of business is small. This facilitates him to create interest among the workers for the job and to generate high morale in a small group than a big one. It is perhaps for these reasons that small firms have higher productivity, greater efficiency, low absenteeism and low labour turnover.

There is a general recognition of the fact that transport development and economic development are closely interrelated. The primary need in rural areas is an efficient system of road transport, for this is the sine qua non of the economic development. A road running through a village make the visits possible to hospitals, schools, banks, local markets, post-offices, and police stations. All these areas of rural economy have good opportunities for the entrepreneur to develop some business. They can explore the possibilities for a venture in hospitals, schools, trading in small shops or servicing as barber, carpenter, tailor, tea stalls, etc. in small shops or servicing as barber, carpenter, tailor tea stalls, etc. It also opens the possibilities of such subsidiary activities as poultry farming and dairying. It also provides direct work to the entrepreneur during the building up of the transport network to a limited extent but generate substantial opportunities in allied activities, after the network is established. It is necessary to build up a reasonably good network of rural transport for materialising the scheme of rural development. We have a very

unsatisfactory network of rural transport. Not surprisingly, seven out of ten villages do not have all weather approach roads and five of them do not have even the fair weather roads. It is a fact that that rural development cannot be achieved merely by offering financial, technical and other assistance to the entrepreneurs on a large scale. It cannot be achieved in isolation, for it is an integral part of the overall development of the economy.

The entrepreneurs have a skill to identify, to exploit and a niche in the market in which they see opportunities for profit. It is said that a shoe manufacturing company appointed two salesmen to explore the possibilities to market its shoes in two different territories on the moon. They went to the moon and the first salesman came back soon reporting, no possibility of sales as no one wears shoes, while the second salesman stayed there and requested the company to supply 100 million pairs immediately as nobody had shoes. The entrepreneur always maintains a positive approach and struggle heard to establish in highly competitive world and foresee the opportunities whenever they arise.

7.2 DECISION ON THE MODE OF ENTRY INTO OVERSEAS MARKETS:

Once a firm has decided to go international it has six alternative methods to choose, amongst, for getting the entry into the foreign market. The choice depends very much on the resources of the firm and the market potentials for its product in the importing country.

The methods of entering foreign markets are:

- **Direct Marketing:** Direct marketing involves sales of domestic goods and service directly to overseas buyers. Manufacturer exporters sale their goods and service by appointing agents abroad, direct contact through mass media, participate in trade fairs and exhibition etc. They select overseas markets, making contacts with foreign customers, arranging shipments and payments and handling necessary documents required to export.

A firm may choose to enter the international market for the first time by exporting its surplus production through any of the following forms:

- by approaching the consumers directly in overseas markets;
- by selling the production to an import house or buying agent in India; and
- by selling the product to an exporting house in India for export purpose.

These forms are the most common and the simplest for entering the overseas markets for the first time. This is so because the risk attached to such an approach is minimum.

- **Licensing:** Licensing is the process of contracting with foreign firms, granting them proprietary rights to use technology, copyrights, trademarks or specific products owned by domestic companies. Licensing is a simple way to expand business overseas because the foreign licenses assume the risk and investment of doing business; the domestic licensor grants access to proprietary knowledge or technology in exchange for royalties.

Licensing arrangements include a contract to manufacture and market products, to conduct research and to provide services. Manufacturing is the most common form of licensing whereby an established product or technology gained a foothold overseas through a foreign company with necessary production and marketing capabilities.

Franchising: Franchising is a method of doing business by which a franchisee is granted the right to offer, sell, or distribute goods or services under a system created by the franchiser. Basically franchising. Is a special form of licensing that involves rights to a business concept.

The nature of right could be selling the franchiser's product, using its name, production and marketing techniques, or general business approach. One of the methods of franchising these is to provide an important component or ingredient. For example, Coco Cola Company supplies only the syrup for the bottling units. Some other examples of franchising are manufacturer retailer systems like in the case of automobile manufacturer and dealer.

Now a days there is growing trend in trade mark licensing. The names or logos of leading organisations are used for advertising through the uniforms and addresses of sports personalities, movie stars and in the places of events and congregations.

The IFB washing machine is manufactured in India under license from Bosch of Germany. Since India has reserved Electrical fittings for SSI units, the U.S. Multinational General Electric has given license to a small-scale unit in India to exploit Indian market. Similarly Nike International Ltd. has given license to an Indian manufacturer to use their logo on 5% loyalty.

A franchiser uses the franchisee's local goodwill, business location and personal drive and motivation to expand the franchised business. The franchisee uses the franchiser's brand or trademark, methods of operation, marketing resources, and technical advice to enter, develop and maintain consumer demand and ultimately to succeed as an entrepreneur within the community.

This business arrangement or franchise opportunity has three major components: (i) a trademark and/or logo (ii) the use of a product or service following a marketing plan and (iii) a payment or royalty fee. These components constitute the essence of what is generally referred to as a franchise.

- **Joint Ventures:** Another mode of entrant in the a foreign market is through joint ventures. A joint venture is shared ownership by two or more organisations in which the investors have an equity investment in a separate enterprise. Unlike a license or franchise that seldom requires direct investments, the joint venture requires specific equity investments by all parts. The organisations are responsible for operational control and for profits and losses. They are separate legal entities of a least two organisations. Joint ventures may be between two or more private companies or between companies and state owned firms.

Joint ventures have become the primary vehicle for foreign investment in developing countries like India or China. In most cases, the foreign government mandates a joint ventures with at least 51% ownership held by one of its own organisations. This requirement gives the foreign government power to control a majority voice in any dispute. The majority control will protect national interests.

Joint ventures are joint deals between the domestic business firm and the foreign business firm. They facilitate the inflow, of modern technology. They also augment the scarce capital resources through foreign investments which plays a key role and has multiplier effect on the economy of the host country. Joint ventures can create sizable employment both directly and indirectly and contribute substantially to the increase in living standards.

The government of most of the countries offer many incentives to the foreign investors and welcome the setting up of joint ventures in their countries. Tax deduction, tax holiday, income-tax relief, repatriation guarantee for transfer of profits after taxation, and other financial incentives are offered by most of the countries to attract foreign investment in joint ventures. Indian joint ventures in other countries are approved by the Government of India on selective basis and are mainly in areas related to light engineering, chemical and pharmaceutical, textile and allied products, iron and steel products, pulp and paper, food products, commercial vehicles, leather and rubber products, hotel and restaurants, engineering contracts and consultancy, etc.

Under this method, the firm enters into collaboration with a local company in the importing country to share the management and profits of such venture. This method reduces the political and economic risks substantially, associated with the inter nationalisation. However, an important limitation of this method is that it might lead to loss of absolute control and perhaps also loss of freedom of action in production marketing operations.

- **Manufacturing in a Foreign Country:** Manufacturing in a foreign market is another method of entry in the Foreign market. When a firm finds that it is not possible or profitable to export goods to a foreign country due to:

- the high cost of export; or

- the lower cost of materials and labour in a foreign country and hence lower cost of production; or
- tariff and non-tariff barriers on its goods in the importing country.

But the decision to manufacture and market the goods locally is very risky because the success depends very much in the fair assessment of the market potentials in the desired foreign country. In other words, this strategy works well when the market for a specific type of goods in a particular country is substantial and is likely to expand further. The competitive position of the firm in the importing country's market shall also be the deciding factor in this regard. The firm should also take the political and economic conditions prevalent in the importing country and their likely effects on the firm.

- **Management Contracts:** This method of serving a foreign country is rarely adopted by the firm itself. It is the result of the external political pressures from the host country. This arrangement generally comes into being when the firm's investments in a foreign country are expropriated by the host country's Governments and when no suitable and adequate managerial capability exists in the host country. Under this arrangement the firm gets specific fees to manage its investments for a specific time period. Although no firm likes this type of arrangement, but it has no choice but to enter into such type of contract as the only viable solution possible.
- **Consultancy Services:** Offering consultancy services and undertaking turnkey projects under this arrangement, the countries which are lagging behind in technical field offer facilities to firms from other countries to serve the host country and invite them to participate in their developmental programmes through their expertise services in different specialised fields. Firms having such expertise may enter into contracts with the host country's Government or firms for the project exports.

7.3 THE PROJECT EXPORT MAY INCLUDE:

- Turnkey projects, i.e., projects which involve the rendering of services like design, civil construction, erection and commissioning of plant or supervision thereof, along with the supply of equipment.
- Engineering service contracts involving the supply of engineering services alone.
- Consultancy service contracts involving consultation on various matters for the commissioning of plant and includes feasibility report, preparation of designs and advice to the project authority on the specifications for plant and equipment etc.
- Civil construction contracts, with or without preparation of designs or drawings.

Thus, a firm may choose any of the above methods to serve its overseas markets. The different methods may be adopted by different firms taking the potentials of the foreign markets into consideration.

Outsourcing:

Outsourcing is the delegation of tasks or jobs from internal production to an external entity (such as a subcontractor). Most recently, it has come to mean the elimination of native staff to staff overseas, where salaries are markedly lower.

The concept of taking internal company functions and paying an outside firm to handle them. Outsourcing is done to save money, improve quality, or free company resources for other activities. Outsourcing was first done in the data processing industry and has spread to areas, including telemessaging and call centers.

Outsourcing usually applies to a complete business process. It implies a degree of managerial control and risk on the part of the provider. The transfer of components or large segments of an organization's internal IT infrastructure, staff, processes or applications to an external resource such as an Application Service Provider.

Knowledge Process Outsourcing (KPO): The success in outsourcing business process operations to India has encouraged many firms to start outsourcing their high end knowledge work as well. Cost savings, operational efficiencies, access to a highly talented workforce and improved quality are all underlying expectations in offshoring high end processes to India. India's intellectual potential is the key factor for India being the favored destination for KPO industry. The current education system and the youth power has created a bulk of interest for investors.

The growing trend of field among the companies today makes companies to return what they can do best and outsourcing rest of the works. Many big corporations have found out that by outsourcing their claims processing and risk management. KPO strikes it rich in a new breed of knowledge based outsourcing as the global corporations move the process like intellectual property researches to the offshore locations.

Knowledge process outsourcing (KPO) embraces the companies by providing them with a higher end research and analytical based services in a variety of business areas. Knowledge process outsourcing includes services such as basic data research, market research, integration and management, equity research, engineering design, medical content and services, pharmaceuticals, biotechnology, legal support, intellectual property research.

India is seeing a spurt in the growth of "knowledge process outsourcing" units. This is because, India has been edge for the offshore outsourcing of the IT, financial services, business process outsourcing (BPO), has provided beneficial to India due to low cost manpower with higher education, neutral accent English speaking capability. In spite of these the

India is emerging as new hub for KPO (Knowledge Process Outsourcing), having large pool of knowledge workers in various sector. The India has been ranked the most preferred KPO destination.

The global KPO industry is growing at a rapid pace. The sectors that are expected to 'shine' within the KPO industry include data search, integration and management services, financial services, research and analytics, technology research, computer aided simulation and engineering design and professional services, such as business research and legal services. Unlike the conventional BPO, where the focus is on process expertise, in KPO, the focus is on knowledge expertise and requires service providers to possess advanced technical and analytical skills.

Some of the other factors fueling growth in KPO are:

- Developed economies, such as the US, the UK, and countries in Western Europe are increasingly facing a shortage of highly trained and specialised professionals in various knowledge intensive high skill sectors, such as R&D in VLSI, engineering design, IT, financial risk management etc.
- Buyers of offshoring services save more at the high end of the value chain, as compared to the low end on a per job basis.
- High-quality specialised vendors and successful captives have emerged as role models and created awareness for KPO both in the West as well as in India.

With India all set to become the hub for Knowledge Process Outsourcing, professionals from diverse fields are finding interesting career options in this sector. The growing trend of specialization among companies today is leading many to return to what they do best, while outsourcing the rest. Many large corporations have found that by outsourcing their risk management and claim processing services, they are strengthening their core competencies.

The countries involved in global outsourcing enjoy many benefits and their economies will be developed. Though outsourcing activity has been ongoing for quite sometime, the current outsourcing process is characterized by a faster pace, and there are more types of services being covered.

Feasibility of KPO: The concept of KPO has benefited a number of versatile types of industries, service domains and organizations. For example: Back office operations, customer relationship management, call centers and telemarketing; tele servicing and product support, payroll maintenance, finance/accounting/billing, human resources, logistic management, supply chain management and medical transcription.

Outsourcing allows organizations:

- Cut costs
- Increase profitability and productivity
- Enhance development
- Provide better service at lower rates
- Increase shareholder value
- Increase security and reliability
- Maximize uptime
- Concentrate on core competencies
- Stay on top of competition

India has fast emerged as a winner in this outsourcing services hype. Many US companies are in favour of India when it comes to offshoring. India's developments in the areas of communication, power and software developments do not need to be elucidated. Today, India exports software to over 95 countries and ranks second in the world for this service.

Technological infrastructure, low cost, skilled manpower, business friendly laws and taxation, a stable government, a buoyant economy and quality conscious software firms (ISO 9000, CMM) contribute to India's success. India, as a country with rich talent, has all the right resources, facilities and reputation of providing quality services to stand apart from the crowd as one of the best offshore destinations to outsource services.

Looking at India's position in terms of how its competitors in the outsourcing industry across the globe are performing, the graph shows where India stands among the top players. Global resourcing chooses the optimal location to perform processes that can be located anywhere.

The BPO industry in India looks to be fairly safe and bright, because –

- India has a rich experience in the outsourcing industry while the new entrants are yet to gather knowledge of the industry.
- English language proficiency gives Indian BPOs a better competitive edge over other countries.
- Another cutting edge is the democratic understanding because of the political set up, which neither China nor Russia has.
- Language as well as expertise in domain knowledge is another plus point of India's large resource pool.
- Adaptability, flexibility, and intense customer focus due to the competitive attitude are few more strengths of Indian entrepreneurs as

well as its labour force. Indian companies are known to go to any extent to satisfy their customers.

7.4 VENTURE CAPITAL FUNDING:

Venture capital is a form of equity financing of projects with high risk and high return. It is meant for financing high technology projects. Besides financing high technology, venture capital fosters the growth and development of industries. It helps to convert research and development projects into commercial production.

The concept of venture capital originated in the USA. Now it has become a worldwide concept in the field of funding technology based industrial projects. It is of recent origin in India. IFCI started this concept in 1975 by setting up 'Risk Capital Foundation' (RCF). RCF was converted into a company known as 'Risk Capital and Technology Corporation Limited' (RCTC) in January 1988.

IDBI also started a venture capital fund scheme in 1986. The ICICI also set up the 'Technology Development and Infrastructure Corporation of India (TDICI) in 1988. TDICI provides technological information and finances intensive development activities including commercial research and development. It also manages the venture capital fund of Rs. 20 crores which ICICI has set up along with UTI in 1988.

Besides, public financial institutions, commercial banks have also entered venture capital business. SBI capital markets, Yes Bank Financial Services and Grindlays Bank have established venture capital funds. The India Investment Fund of Grindlays Bank provides venture finance to suitable projects of NRIs.

In the private sector, the Credit Capital Corporation launched Credit Capital Venture Fund India Ltd. with the help of Asian Development Bank and Commonwealth Fund.

Guidelines for Venture Capital: On November 25, 1989, the Government of India issued certain guidelines regarding establishment and functioning of venture capital funds.

These guidelines are as follows:

- **Establishment:** All India public financial institutions, scheduled commercial banks including foreign banks operating in India and their subsidiaries would be eligible to start venture capital funds/companies subject to approval from the Reserve Bank of India/Government of India.
- **Size:** The minimum size of a venture capital fund/company would be Rs. 10 crore. If it desires to raise funds from the public, the promoters' share shall not be less than 40 per cent. The minimum debt equity ratio would be 1:15.

- **Assistance:** Assistance would be provided mainly to enterprises with comparatively high risk due to technology/entrepreneur being relatively new. The total investment in the enterprise should not exceed Rs. 10 crores.

7.5 QUESTIONS

1. What is franchising? Explain advantages and disadvantages of franchising.
2. According to your opinion which areas must be considered by small entrepreneurs for survival in modern competitive world?
3. Devise a suitable marketing plan for your products to be introduced in the overseas market. Illustrate your answer.
4. India is seeing a spurt in the growth of “knowledge process outsourcing” units. Explain the feasibility of such units in the present and future international scenario.



PROJECT MANAGEMENT

Unit Structure

- 8.1 Introduction
- 8.2 Definition of a Project
- 8.3 Phases of Project Preparations
- 8.4 Objectives of Project Appraisal
- 8.5 Summary
- 8.6 Questions

8.1 INTRODUCTION

A project may be considered as a series of activities and tasks that have a specific objective to be completed within the stipulated time as per the certain specifications. It presupposes commitment to tasks to be performed with well defined objects, schedules and budgets. A project is a business opportunity which can be exploited for profit.

8.2 DEFINITION OF A PROJECT:

Different authors have given different definitions of a project. Some of the main definitions are given below:

- According to *Webster's New 20th Century Dictionary*, "A project is a scheme, design, proposal of something intended or devised."
- According to *Little and Mirrlees*, "Project is a scheme for investing resources which can reasonably be analysed and evaluated as an important unit."
- According to *David Clifton and D.E. Fyffe*, "The term 'project' means the establishment of a new enterprise or the introduction of something new into an existing product mix. A project can encompass a wide range of possibilities, from a single piece of machinery to an entire plant."
- According to *Dictionary of Management*, "It is an investment project carried out according to a plan in order to achieve a definite objective within a certain time and which will cease when the objective is achieved."

Project is scientifically evolved work plan devised to achieve a specific objective within a specified period of time. The specific objective may be

to create, expand or develop any business enterprise which can be exploited for profit.

Characteristics of a Project: The main characteristics of a project are as follows:

- **Objectives:** A project has a fixed set of objectives and once the objectives are achieved, the project ceases to exist.
- **Single Entity:** A project is considered as a single entity which is entrusted to one responsible centre or authority.
- **Team Work:** For successful completion of a project, team work is a must.
- **Life Cycle:** Like human beings, projects have also life cycle. Life cycle is reflected by growth, maturity and decay of a project.
- **Uniqueness:** Every project has uniqueness. No two projects are exactly similar even if the both plants are identical or are merely duplicated.
- **Life Span:** Every project has a fixed life span. It has to come to an end once the desired work is completed.
- **Element of Risk and Uncertainty:** Every project involves the element of risk and uncertainty.
- **Unity in Diversity:** A project is considered as unity in diversity.
- **Change:** Change is the rule of life. Every project undergoes many changes throughout its life.
- **Made to Order:** A project is always undertaken on the requirements and specifications of its customers.

8.3 PHASES OF PROJECT PREPARATIONS

Every new project has different stages or phases. The new project has to pass through following stages

- **Pre-investment Phase:** This is the first stage in project preparation. In this phase, the entrepreneur conceives new ideas, new opportunities and new concepts about the new project. A well conceived project will go a long way for successful implementation and its, operation. During this stage, project idea is developed into an investment preposition. This stage starts from project identification and passes through the sequence of formulation and appraisal and ends on the selection decision of the project. This phases produces a document describing the project with sufficient details covering all aspects necessary for the customer and/or financial institutions to make up their minds of the project idea. During this phase a number of considerations are given for the availability of raw-materials, enumeration of plant capacity, selection of the location and site,

selection of optimum technology, layout, plant and machinery, optimum civil works, selection and description of utilities, such as, fuel, power, water etc., selection of labour force and staff and their training and above evaluation of financial viability. Thus, under this phase of project, the project objectives are formulated, demand is forecasted, optimum strategy is selected, input characteristics are evaluated, financial profile is projected and above all pre-investment appraisals are prepared.

- **Implementing Stage:** After completing the first pre-investment stage, the entrepreneur enters into second stage, *i.e.*, implementing stage. This is the stage of hectic activity for the project. During the implementing stage, the entrepreneurs prepare specifications for plant, building, machinery, equipment, ordering the plant, machinery and equipment, lining up construction contractors, civil constructions, construction/leasing building, equipment and machinery erection, plant electricals; piping instrumentation; testing checking trial run and commissioning of the plant, recruitment and selection of labour force, technicians, engineers and managerial personnel and their training etc. This phase involves the completion of 80-85% of the total project work. During this stage, the project gets a clear shape and comes into existence.

- **Operation Stage Final Stage:** This is the final and thus last stage of project preparation. In this stage, the actual production commences. It includes (a) Uninterrupted operation of the production. (b) Maintenance of the quality standard of the product/products. (c) Maintenance of productivity norms. (d) Realisation of specific objectives. (e) Market acceptance of the product/products. (f) Maintenance of consumer satisfaction.

Project Identification

Identification of a suitable project is a very crucial decision as the ultimate success of the enterprise greatly depends upon the selection/identification of right type of project. The sensible entrepreneur has an infinitely wide choice with respect to the new project. These may be project service, market, technology, equipment, scale of production, location etc. The identification of a feasible and promising project is really a difficult task. The identification of a feasible project depends to a large extent on Government policies, infrastructure development facilities, availability of requisite raw-materials, finance, market, employees both skilled and unskilled.

Definition: “Project identification is concerned with the collection, compilation and analysis of economic data for eventual purpose of locating possible opportunities for investment.”

Peter F. Drucher (1955) has located the following three opportunities:

- **Additive:** These are such opportunities which enable the decision makers to better utilise the existing resources without any significant change in the business.

- **Compliment Opportunities:** Here new ideas with certain changes in the present structure.
- **Breakthrough Opportunities:** In this opportunities require fundamental change in both structure and character of the business.

The element of risk would be less in additive opportunities when compared with the remaining two opportunities. It is because additive opportunities involve the least amount of disturbance to the existing state of affairs business.

Process of Project Identification:

The process of project identification includes the following characteristics:

- **Inputs:** The input characteristics defines what the project will consume in terms of raw-materials, energy, manpower, finance and organisational set up. The nature and magnitude of each of the inputs must be determined in order to make the input characteristics explicit. In this connection it is necessary to make use of SWOT analysis (strengths, weaknesses, opportunities and threats).
- **Output:** The characteristics of a project defines what the project will generate in the form of goods and services, employment, revenue etc. The quantity and quality of all these outputs should be clearly analysed before the project is undertaken.
- **Social Costs and Benefits;** In addition to inputs and outputs, every project has an impact on the society. It inevitably affects the current equilibrium of demand and supply in the economy. Hence it is essential to evaluate carefully the sacrifice which the society requires to make and the benefits that will accrue to the society if the proposed project is undertaken.
- **Location:** It is necessary to take into account the tentative choice of the location where the proposed project is to be set up. For example, in case of small scale industry, the location usually decided where the industrial estate exists as all kinds of infrastructure and other facilities are easily available at concessional rates in industrial estate established by the State Governments/Central Government.
- **Counseling Services:** The last but not the least important point in the process of project identification is the availability of counseling services, such as, government agencies, credit and financial institutions, technical consultancy organisations (TCO's), non government agencies, *i.e.*, chamber of commerce and industry, inter institutional groups, international collaborations etc.

Project Report

The entrepreneur has to put his ideas and other information sought in black and white. It is in the form of project report. Project report is the summary of facts, information and analysis. "A project report is a written

account of various activities to be undertaken by an entrepreneur and their technical, financial, commercial and social feasibilities.” The main objective of preparing the project report is to provide information for the project appraisal.

Characteristics of Project Report:

The main characteristics of a project report are as follows:

- It is an exhaustive document which contain the detailed complete description of the project,
- The details gathered from feasibility studies are presented in the form of tables, reports and statements which are consolidated in project report.
- It is prepared after crossing all the barriers in connection to a project.
- Project report is a guideline of activities,
- It indicates the sequence of activities.

Contents of the Project Report:

A project report should contain the following points:

- Introduction of the proposed project.
- Brief History Stating to Why did the entrepreneur decide to set up this particular project?
- Form of business organization indicating proprietorship, partnership, corporate body etc.
- Promoters the details of the promoters and their key personnel should be furnished. A detailed bio-data should be given.
- Size of the unit Small, medium or large.
- Product full information about the nature of the product/products to be manufactured.
- Market Potential local, national or international along with the nature of competition.
- Manufacturing Process and Technical know how.
- Details of Machinery equipment and plant capacity.
- Location and Lay out.
- Details of Raw materials and its availability.
- Details about General Management and Technical Staff.
- Effluents.
- Total cost of the Projects.
- Mode of finance.
- Working capital required.

- Manufacturing cost and profitability.
- Project Implementation Schedule.
- Any other details.

From the above, it is evident that the project report covers wide areas which provide total information to the entrepreneurs for early implementation of the proposed project.

Project appraisal:

Project appraisal is the analysis of the cost and profitability of the proposed project. The main objective of project appraisal is the rational allotment of limited resources on different alternative investment opportunities so that the specific prescribed object or objectives may be achieved.

“It is a detailed evaluation of the project to determine the technical feasibility, economic necessity, financial viability of the project and managerial competence required for its successful operation.” Every project report appraisal is a final view of the proposal which is taken after considering many factors such as:

1. Technical factors
2. Financial factors
3. Commercial dealings
4. Managerial factors
5. Environmental factors
6. Operational factors needed for its management.

Due care for weak points be taken. In general banks and financial institutions are required to examine the liability of a project whether to provide financial help or not. These institutions can also ensure the profit margin on capital investment. The surplus should be sufficient to pay interest on term loans and repay the principal sum within a specified period. Highly capital intensive projects require higher repayment period whereas small and medium has lower repayments. The viability of a project depends on the technical feasibility, marketability of products and management of the business unit.

8.4 OBJECTIVES OF PROJECT APPRAISAL:

The project appraisal is a technique to examine the viability and profitability which specifies the estimated costs and profits.

The main objectives are as:

- It is useful to forecast costs and profits.
- It is useful to predict project viability and worthiness of project.

- It is useful to highlight the success and failure.
- It is useful to pin point regarding the return on capital invested.
- It is useful to evaluate technical abilities and management abilities.
- Project appraisal is useful to prompt disbursement, close supervision and follow up can be made.

Profitability Appraisal: After the project objectives appraisal, profitability analysis of the project should be conducted in the light of the following factors:

- **Pay back Period:** Pay back period is a traditional and simple method which is used for profitability appraisal of a project. Pay back period is the time required to recover the cost of the original investment through income of the project.
- **Average Rate of Return:** ARR method is considered to be an improvement over the pay back period method. In this method, the average returns or earnings is calculated by adding all the earnings after taxes and divide them by the project's economic life.
- **Net Present Value:** NPV (net present value) for any project is the aggregate present value of net cash flows over the operating life of the project.
- **Benefit Cost Ratio:** It is the ratio of gross discounted benefits to gross discounted cost. In this method, higher the benefit-cost ratio the better is the project.
- **Internal Rate of Return:** It is the rate of interest when used to discount the cash flows of an investment, reduced net present value to zero. In order to calculate internal rate of return, firstly the net cash flow is to be determined by deducting the costs other than depreciation from the annual sales. Secondly, obtain the capital cost, and thirdly, calculate the present value of the net asset cash flow by using the appropriate rate of interest.

Scope / Aspects of Project Appraisal:

A comprehensive appraisal of a project can be performed by covering the following perspectives:

- Technical appraisal
- Financial appraisal
- Economic appraisal
- Managerial appraisal
- Operational appraisal
- Organisation appraisal
- Commercial appraisal
- Environmental appraisal

Once it is recognised that the project is worth carry on, the proprietor may be advised to submit the needed information in the prescribed form to the bank. The appraisal of a small project may need less information as compared to larger projects. The task of the banks and financial institutions does not end with the proper appraisal and sanction of financial assistance. Prompt disbursement, close supervision and follow up is necessary during the project implementation and afterwards as well.

Resourcing: The implementation stage comprises all the spade work required to set up the business venture. This covers procurement of land, construction of building, erection of machinery, obtaining necessary licenses and registration of the enterprise etc.

To set up a business venture, particularly a manufacturing enterprise, an entrepreneur needs to develop a network of individuals/ organisations who can help him in various stages of setting up an enterprise and running it.

Project Identification:

A project may be defined as a scientifically developed plan of work with an aim to achieve a specific objective within a specified period of time. A project is a specific activity on which large amount is spent in expectation of returns. A project is located in a specific geographical area and would serve a group of population. The projects differ in size, objectives, nature and complexity. The three elements of a project are a course of action have a specific objective and involve a definite time frame. The project plan must give clear and unambiguous terms in which the predetermined objectives are to be achieved. In making a project different resources will be consumed to achieve the objective set. A project includes all the activities which are aimed at:

- Production of goods and/or services.
- Increase in the capacity of existing plant or services, and
- Increasing the efficiency or productivity of the existing plant or services

Projects are classified in three different ways:

- **Quantifiable and Non-quantifiable Projects:** The commercial projects like manufacturing industrial development, power generation and the like are quantifiable projects. The benefits can be quantified in terms of money and other quantifiable terms. Health care, education, defense and the like are non-quantifiable projects where the benefits cannot be assessed in exact quantifiable terms.
- **Projects Named on Sectors:** The projects are classified based on the sector to which the industry belongs like, agricultural sector, transport sector, social services sector, industry and mining sector, irrigation and power sector. The classification of these types helps the government

authorities in India. It is the Planning commission which plans for resource allocations for different sectors of economy at macro levels.

- **Techno Economic Projects:** The projects are classified on the basis of their techno economic characteristics.

These are:

- **Factor intensity:** If the project is labour intensive or capital intensive.
- **Demand based:** Based on the demand of the goods whether raw-materials, skills, semi-finished or finished goods.
- **Size of investment:** Based on the magnitude of the investment the classification is made based on the size of the investments like large scale, medium scale, or small scale projects.

Project Identification is a process of collection, compilation and analysis of techno economic data for final purpose of locating and finding possible opportunities for investment and development of characteristics of such opportunities.

Peter Drucker an eminent management guru, finds three kinds of project opportunities: 1) additive, 2) complementary and 3) breakthrough. In additive type an entrepreneur uses the existing resources and brings in a change to the existing business. In complementary type an entrepreneur introduces new ideas leading to changes in the existing business and evolves new business opportunities. Breakthrough opportunities involve basic changes in both structure and character of the business. In case of additive opportunities the disturbance to the existing business is small or nil. In the second or complementary opportunity type there are changes and the risk increases. In case of breakthrough opportunities there are large risk and as such, call for in-dept study and precise definition of idea, scope and nature of the project.

In the previous chapters discussions have been made regarding generation of ideas and selection of idea for the proposed project. In addition, the government departments provide useful and detailed information for development of new project ideas. The government publications are publications given on special occasions or periodical publications given the economic structure of the country and various regions thereon. The trends in the economy, sectoral growth and purchasing power may help to develop new project ideas. The project idea is the starting point of the project feasibility analysis. To select an appropriate idea for the project, it is necessary to examine and appreciate the nature and extent of the various facets of the product and clearly identify the dimensions.

The identification of project has three attributes namely, input characteristic, output characteristics and social cost benefit characteristics. The first defines what the project will consume. The convention items are the energy, raw-materials, financial resources, manpower. It is necessary to find out how much in each of these categories are necessary and in what

time frame. The output characteristics are what the project is expected to generate. Social cost benefit characteristics of a project are impact on environment and how it changes the current equilibrium in economy and its implications on the society.

The characteristics of the project have to be identified at the outset. That is the basic dimensions of inputs, outputs and social costs and benefits thereon be defined in specific terms. The inputs generally are raw-materials, energy, manpower and organisational setup. The output characteristics are what the project will generate in the form of goods and services. The entire project has an impact on the society and changes the current status of demand and supply position in the society. There will be many stakeholders in the new organisations like government agencies, financial institutions, non governmental organisations, customers, suppliers, consultants, industry groups and the like. A project idea emerges by combining the various sources. All these ideas are screened and evaluated in a preliminary way on the basis of internal and external constraints for further progress of pre-feasibility stage.

The constraints are broadly classified as above:

Internal constraints: The internal constraints are mainly input, resources and output. The limitations of the management system will also be responsible for implementing a new venture. This is limitations internal to the organisation for the entrepreneurs.

- Low pooled knowledge of the project or the products. Entrepreneur and his team will have very limited knowledge of the new products, markets, equipments and technology of manufacturing and allied activities. Entrepreneur has to rely more on outside consultants, engineers and experts in different fields for giving guidelines and advice on the project.
- Project management skills: The project management skills have to be hired from outside agencies who are specialists in implementation of such projects.
- Non-availability of internal resources both physical and non- physical for implementation of the project. The shortage of the resources is a constraint in developing nations.

External Constraints: Constraints which are outside the organisation and which are very important implementation of a new project. The situations, the resources and the people which are outside a project boundary impose certain limitations on the nature, size, location, extent and the environment of the project. apart from natural resources the government policies, social requirements, the state of capital markets are the important aspects that determine the size and environment of the proposed new enterprise. It may take long time to change the constraints as such the external constraints have to be accepted as the boundaries of the project situation.

Out of the external environment the government policies guide and direct a project into three categories:

- **Government as Promoter:** As a promoter government helps many industries by giving incentives, tax holidays, loans, training, marketing help, built up sheds and other amenities for the growth of some sectors of industries.
- **Government as a Regulator:** Government restricts some projects for proper growth and distribution of industries.
- **Government as Supervisor:** The government organisations help in channelising the produce, record keeping, taxation, regional development and the like.

The preliminary study includes broad search for new project which are identified by two methods:

- **Desk Research:** Desk research is carried on based on the published information that is available readily from various sources like government publications, journals, industry associations, chamber of commerce data and technical journals available on the subject.
- **Techno-economic Surveys:** New area of development is done by team of experts by collection of data from various sources and studying the trends. The data for project identification will be
 - Industrial policy from the government
 - Bank reports and surveys
 - Study of price rise and supply position of some commodities
 - Profitability and demand scenario of some related industries
 - The import-export data of the particular commodities
 - Study of new processes, new technologies and developments of use of alternate materials.
 - Study of changing pattern of consumer behaviour

Based on the data the preliminary search is made for new products and to find out if the proposed new industry falls in the category of demand based or resource based or export oriented unit.

Pre-feasibility Study Report: Pre-feasibility analysis is the process of evaluating the future of a project idea. The limitations of the project implementation body, external and internal constraints of the project are analysed to determine if to proceed further and how to proceed further considering the basic input-output characteristics of the project idea. In pre-feasibility studies quick assessment is made to determine:

- If the product is promising for an investment decision and can be taken for further consideration or detailed study.
- Justifies detailed analysis further to go to project concept.
- Whether the project is attractive to the investors.
- Any special aspects, constraints or critical issues involved so that the aspect can be studied further.

The pre-feasibility study is a study which is done in short time with a limited information for quick assessment and find alternative and narrow down the area of section in the field of:

- Market potentials and demand pattern
- Plant capacity
- Resource inputs
- Location of site
- The technologies available
- Broad organisation structure and manning
- Financial analysis like cost, project financing, investments, commercial viability and profitability projections.
- Project engineering, implementation and time schedules
- Any special issues particular for the planned product / project.

8.5 SUMMARY

The project formulation stage is an analytical management tool to study a series of alternatives to a situation, evaluate the alternative approaches and make investment decision. Immediately after completion of pre-feasibility report the project formulation stage comes in order to decide whether the product should be taken up or delayed or abandoned. Generally a term led by the entrepreneur evaluates these alternative to arrive at the most effective decision. Some times help is taken from experts in the field or consultants who help the committee to get clearer picture of the alternatives available.

- **Introduction:** After the entrepreneur has selected the product, he has to assess its technical and economic feasibility. Such a study is known as a feasibility study and the report incorporating the study is called a Project Report.

The feasibility study provides a base technical, economic and commercial for making the investment decision. It should define the critical elements relating to the particular product and also spell out alternative approaches

to such production. The study should define the capacity, specify the location, the technology to be used, it should project the revenues and costs and show up the profitability of the proposed venture.

Some feasibility studies are market oriented, particularly when they concern consumer products. Some of the studies are technical oriented or based largely on material inputs. This is so in case of industrial products, components, assemblies etc.

A carefully prepared project report is the blue print for the entrepreneur. The greater he gets involved in its preparation, the better he will be able to anticipate problems and find solutions. He will have a firm grasp of all aspects of the project and can convince financiers about the viability of the project.

- **Preparation of The Project Report:**

The following are the broad aspects of a Project Report:

- **Promoters:** Details giving names, background, experience, and other business interests. As much details as possible must be given about these other business interests.
- **Product:** A detailed description of the product and the whole range of products including the special features, the competing brands etc. The end use of the product, including the technical literature and catalogs, including the literature for the competitors products.
- **Demand and Supply:** A profile of the industry, indicating present production and future trends. List of major manufacturers giving, if possible, their capacities and the actual production. Also indicate the overall capacity utilisation of the industry. Give a projection of demand for the product indicating clearly the basis on which the projections are made.
- **Marketing:** Details of marketing strategy, distribution arrangements, advertising/publicity support, price and discount structure. The market segment proposed to be attacked and why.
- **Size of Plant:** The capacity of the plant and what was the basis of deciding the plant of the size suggested. At what level of production will the breakeven be achieved and in how many years this level is expected to be achieved. The expected production at the level of capacity planned and how this production would compare with the projected market demand.
- **Plant and Machinery:** Detailed cost of the equipment (including the technical literature obtained from the manufacturers) inclusive of import duties, freight and insurance, an installation costs. The various quotations obtained and the basis on which the specified machinery was selected.
- **Manufacturing Process:** A detailed note on the process employed and whether it is the most appropriate cost wise and technology wise, whether

other processes were considered and what factors weighted in favour of the chosen technology.

- **Raw Materials:** Details of the major items imported and indigenous, indicating sources of supply and the approximate costs.

Where there is a price/distribution control on any item this needs to be separately indicated.

- **Utilities:** Sources of power, cost of power and an assurance that an uninterrupted supply of power will be maintained. Likewise, sources of water for industrial use as well as for drinking purposes and an assurance that continuous water supply will be available. The type of fuel oil, coal etc. indicating the sources of supply and cost.
- **Effluent Treatment:** Arrangements made and the cost thereof.
- **Manpower:** Category wise projection and the costs. This will have to be done for shop floor personnel as well as for the office staff and the managerial and supervisory personnel.
- **Land and Building:** Area, vendor of the land, NO OBJECTION certificate, terms of purchase and proof of title, whether space is adequate for future expansion. Type of construction, name of architect, his experience and the fees paid to him. The Building Plan and how the built up area is proposed to be utilised.
- **Cost of Project:** Broken up into major ingredients such as land and buildings, plant and machinery, furniture and fixtures, knowhow fees deposits preliminary expenses and contingencies. Provision must also be made in respect of margin money for working capital.
- **Sources of Finance:** The report must indicate from what sources it is proposed to raise funds to cover the cost of the project. Each source must be indicated clearly showing the amount expected to be raised from each source, OJON.
- **Financial Statements:** These include the Projected Income Statement and Balance Sheets. Cash Flow Statements, Computation of working capital and the breakeven point.
- **Schedule of Implementation:** This will consist of a PERT (Programme Evaluation Review Technique) Chart, indicating all the activities necessary to complete the implementation of the project, indicating the time element for each activity.
- **Progress Made To date:** An indication will be given about the activities completed to date, such as, licencing, formation of partnership, appointment of architects, finalising builder, selection of machinery etc.

- **What A Lender Looks for in a Project Report:**

The lender looks at the project report from four angles:

- (a) Technical Feasibility
- (b) Financial Soundness
- (c) Managerial Competence
- (d) Economic Viability

The lender must be satisfied on all the above four scores before he takes the lending decision.

Technical feasibility can be ascertained by keeping the following questions in mind and directing the inquiries towards obtaining satisfactory replies to these questions

- Do the promoters have the necessary technical competence to manufacture the proposed product?
- Whether the promoters have made necessary arrangements for the requisite fixed assets and raw materials, if not can they do so within a reasonable time and cost: and
- Whether the proposed factory is supported by the infrastructural facilities in the area.

Technical competence is judged from two factors:

- The availability of technical know how, and
- The type of proposed technique (process) of production.

The promoter may have secured the know how the hard way or he may have got it from a collaborator or he might have hired an expert with the know how. Similarly, the production technique could be an old fashioned one or a modern one or one that is highly innovative. Old techniques may not be cost effective; the innovative one may be still untried. The modern method may be accepted with lesser risk element in it.

The lender would like to assess whether the entrepreneur has been able to get the machinery and the necessary inputs. The current supply position of these items and the ability of the entrepreneur to get uninterrupted supply of inputs needs to be judged. Title to land will be verified, machinery will be checked for their availability and their reliability. In case of imports, it is necessary to see that all necessary licences are obtained. Extra caution is required in case of secondhand equipment. Likewise availability of important raw materials and the ability of the entrepreneur to have uninterrupted supply of these materials will need to be assessed.

The infrastructure would include water, power, transport and communication, tooling and repairing facilities. It will also include banking, security etc.

To ascertain the FINANCIAL SOUNDNESS of a project data is obtained in the project report. Various components of the fixed and current assets will be analysed. The figures will not only be checked for their accuracy but also for the assumptions on which they are arrived at. Some key ratios like current ratio, debt-equity ratio, profitability ratios and debt service coverage ratios are computed from the projections given in the project report.

The lender wants to ensure that the project does not suffer because there is a lack of management talent. The background and experience of the promoters and their key managers will be scrutinised in details. Details may be sought about the kind of information and control systems that will be available. An organisation chart indicating the key positions and the extent of delegation of authority will be studied.

A cost benefit analysis will show whether the project will be economically and commercially viable. The lender will like to look at the demand prospects for the product, the marketing channels, pricing strategies, product mix, government policies, distribution arrangements and discount structures etc.

- **Project Format:** It is generally believed that a Project Report is a document meant for the use of the bankers and financial institution. Therefore, the entrepreneurs generally do not get involved in the preparation of the Report; they ask some experts to do the job. This is an incorrect approach. A Project Report is a Blue Print for the Entrepreneur. He needs it more than his bankers; if his venture does not go as planned, he will be able to know why only if he was involved in preparing the project report. The Project Report needs to be sold to the entrepreneur first before it is sold to the financiers.

8.6 QUESTIONS

1. What is meant by a project? Explain the characteristics of a project.
2. What is project? Explain the stages of project preparation.
3. What is meant by project identification? Discuss the process of project identification.
4. What is the project report? Explain. What are its basic characteristics? State in brief the contents of a project report.
5. Write a note on project appraisal.



ESTIMATING AND FINANCING OF FUNDS

Unit Structure

- 9.1 Introduction
- 9.2 Need for Estimating Funds Requirement
- 9.3 Sources of Raising Working Capital
- 9.4 Factors Determining Fixed Capital Requirement
- 9.5 Short Term Finance/Capital
- 9.6 Role of an entrepreneur in economic growth as an innovator
- 9.7 Questions

9.1 INTRODUCTION

Finance is the life blood of an enterprise. Finance to an enterprise is what blood is to a human body. Without adequate blood a human body cannot survive and function. Similarly, an enterprise, big or small, cannot survive and run without adequate capital.

Finance is required for the establishment and running of an enterprise development. Even managerial functions like planning, execution, coordination and control cannot be discharged without adequate funds.

9.2 NEED FOR ESTIMATING FUNDS REQUIREMENT:

An enterprise needs both long term and short term funds. While estimating funds requirement it is essential to pay attention on estimation of the total financial requirements and profit earning capacity of the business enterprise. In this connection, both the situation i.e. over capitalisation and under capitalisation should be avoided. At the first instance, the entrepreneur should make comprehensive study of the total funds requirement. Estimation of funds requirement will include the following:

- **Fixed Assets:** Cost of fixed Assets, such as, land, building, plant, machinery, furniture and fittings etc.
- **Current Assets:** Requirements for Current Assets, such as raw materials, stock, Bill receivable, credit sales and daily routine expenses such as salaries, wages, rent, stationary etc.

- **Promotion Expenses:** Promotion expenses including legal expenses. Expenses for strengthening business, such as, expenses on advertising, sales promotion, etc.
- **Administration:** Company organisation establishment expenses, such as expenses on hiring services of experts etc.
- **Cost of capital:** Cost of Obtaining requisite finance, such as underwriting, commission, brokerage etc.
- **Intangible Assets:** Cost of Intangible Assets, such as, patents, purchase of goodwill, if any etc.

Working Capital:

The capital requirements are generally estimated for (a) Fixed Capital and (b) Working Capital separately.

Fixed capital is required to invest in fixed assets while working capital invest in the short-term financial requirements of the business enterprise.

The amount invested in fixed assets is permanently blocked in the investment throughout the normal business operations. Working capital, on the other hand changes and does not diminish in value by day to day use.

The relative proportion of fixed and working capital required for an enterprise varies from industry to industry. There are no hard and fast rules as regards to fixing their respective sizes. If the fixed capital is high, working capital will be low or vice versa.

The presence of high working capital can be ascertained from the large carry-over of raw-materials, ratio of indirect cost to the total costs and lack of control over performance. While the high fixed capital is seen in the heavy investment in fixed assets. For efficient conduct of an enterprise proper balance has to be maintained between the fixed capital and working capital.

The relative proportion between fixed and working capital depends to a large extent upon the nature of business. In transportation and engineering companies the proportion of fixed capital is high as compared to the public utilities. In advertising agencies and manufacturing industries the proportion of working capital is high. Initially, a business requires more working capital but later on as the cycle of production, selling and collection starts the requirements of working capital diminishes comparatively.

9.3 SOURCES OF RAISING WORKING CAPITAL:

Working capital may be raised by a business enterprise through various sources.

The most common sources of securing working capital are as follows:

- **Issue of Shares and Debentures:** Companies issue different types of debentures to raise the working capital. It is borrowed capital. Investors are attracted by offering attractive rate of interest. Debentures are popular in Indian capital market. Convertible debentures are more in demand. This sources has fixed burden. For permanent working capital shares are issued.
- **Bank Credit:** Companies take bank loan to meet the need of working capital. Banks grant loans in the form of overdraft, cash credit, discounting of bills etc. These are secured loans on which interest is paid. This sources is very common in industrial world.
- **Loan from Financial Institutions:** Financial institutions also provide working capital. Large companies get working capital from financial institution. But this sources is not useful for small business units.
- **Public Deposits:** Companies also accept deposits from the investors for short period generally up to three years. It is called public deposit. People prefer to lend money to the companies as interest offered is attractive. Many companies collect large amount from this source.
- **Advances from Dealers:** Sometimes, business takes advances from their dealers. Advance is given by the dealers along with big order. Dealers prefer it as it is the confirmation of meeting the orders. This source is used to meet the regular expenses of the business.
- **Self-Financing:** Accumulated funds within the company are used to meet the need of fixed working capital. The source of self financing is economical as burden of interest is not there. But it can be used only by existing company earning adequate profits and having surplus funds.

Factors Determining Working Capital Requirement: The working capital requirement of a business unit depends upon various factors which need to be considered collectively.

The factors determining the working capital requirements are as explained below:

- **Nature of Business:** A company's working capital requirement is related to the kind of business it conducts. Public utilities, for example, conduct their business on cash basis hence they require limited amount of working capital. On the contrary, trading concerns and service industries require huge working capital as they have to carry stock-in-trade, accounts receivable and liquid cash. Manufacturing units requiring costly raw materials/imported raw materials require huge amount of working capital.
- **Size of the Business Unit:** Size of the business unit also determines the working capital requirement. Large units require more working capital while small units require less working capital. Similarly, capital intensive industrial units require lower amount of working capital as expenditure on

wages, etc. is low. On the other hand, labour intensive industrial units need huge working capital in order to meet wage bill of employees.

- **Nature of Operating Cycle:** Companies having short operating cycle (e.g. electricity supplying company) and selling services in cash basis, need limited/modest amount of working capital while companies having long operating cycle (e.g. machine manufacturing) and also sell the product on credit/installment basis need substantial amount of working capital.

- **Time Consumed in Manufacturing Process:** When manufacturing process is lengthy and complex in character, more working capital is required as capital will be blocked in the production process or working process. Companies producing heavy machinery like generators, require more working capital. Similarly, if the manufacturing cost is high, the working capital requirement will be more.

The working capital required by an automobile manufacturing unit will be quite substantial whereas the working capital required by a soap manufacturing unit will be comparatively limited as the process of production is quick and the final product is brought in the market within a short span of time.

- **Speed of Turnover of Circulating Capital:** The speed with which the circulating capital completes its full round plays an important role in deciding the capital requirement. If the sale is quick, limited working capital is adequate. Thus, the faster the sales, the lesser will be the working capital requirement and vice versa. The cash requirements also determine the amount of working capital. If more cash is needed for meeting regular needs, the working capital required will be more. A credit commanding company requires less amount of working capital.

- **Position of Business Cycle:** Requirement of working capital very with the business environment. During boom period, the management is induced to pile up big stock of raw materials and other items likely to be used in the future business operations. This is for taking the advantage of high market prices. Naturally, the working capital requirement will be more. During depression, big amounts are locked up in the working capital as the inventories remain unused and book debts uncollected. In both the cases, the requirement of working capital increases.

- **Terms of Purchase and Sale:** A business unit, making purchases of raw materials, etc. (inventories) on credit basis and selling goods on cash basis will require lesser amount of working capital. On the contrary, a business enterprise having no credit facilities and at the same time forced to grant credit to its customers may require more working capital.

- **Dividend Policy and Taxation Policy:** Every company takes into consideration the effects of dividend policy on cash position. A shortage of working capital often acts as a powerful reason for reducing the rate of dividend. On the other hand, a strong position on the working capital front

may justify continuing high dividend payment even though the earnings of the company are not sufficient to cover the payment.

The taxation policy of the government determines the amount of working capital. Heavy tax burden on the corporate sector raises the amount of working capital required. Frequent payment of taxes (like sales tax) also raises the amount of working capital requirement.

- **Raw Material and Labour Cost:** A business unit requires more working capital if the raw material requirement (inventory requirement) is more in quantity and higher in cost. Similarly, labour intensive business unit requires more working capital as monthly wage bill is quite substantial. For example, small-scale industries need more working capital as they are labour intensive. On the contrary, a capital-intensive industrial unit needs less amount of working capital on account of low wage bill.

- **Seasonal Variations:** There are seasonal variations in the working capital requirement. During the busy season, more working capital is required while its need will be less during the slack season. For example, in the case of sugar factory, working capital required will be more during the busy season whereas the amount required during the slack season will be very limited, as sugar production is not conducted during the slack season.

- **Banking Connections:** A company with good banking connections requires limited working capital but working capital required will be more in the absence of such connections.

- **Cash Requirement:** The working capital requirement is influenced by the amount of cash required for meeting various payments such as salaries, rent, taxes, etc. The greater the requirement of cash, the higher will be the working capital requirement of a business enterprise.

- **Miscellaneous Factor:** (a) Reserves and depreciation policy. (b) Supply position of raw materials. (c) Demand position for finished products. (d) Expansion programmes of the company. (e) Operating efficiency. (f) Changes in the price level. (g) Credit standing of the firm. (h) Availability of efficient transport facilities. (i) Position of inflation in the country.

9.4 FACTORS DETERMINING FIXED CAPITAL REQUIREMENT:

Fixed capital requirement depends on number of factors as explained below:

- **Nature of Business Activity:** The nature of business activity determines the amount of fixed capital. Public utilities and transport undertakings need large amount of fixed capital for purchasing fixed assets. On the other hand, commercial enterprises need limited amount of fixed capital as fixed assets required are limited. For example, banks and

insurance companies need limited fixed capital. In addition, large scale industrial units or units using computer technology need more fixed capital whereas small-scale units need less amount of fixed capital.

- **Size and Nature of Business Unit:** Size of the business unit determines the amount of fixed capital. A large size business unit needs more fixed capital as it needs big factory building and more machines. A small size unit needs limited fixed capital for purchasing fixed assets. Similarly, capital intensive business units need more fixed capital while labour intensive enterprises require limited amount of fixed capital. However, labour intensive enterprises need large amount of working capital for payment of wages, etc.

- **Scale of Operations:** Scale of operations (large or small) determine fixed capital requirement. A small scale enterprise needs less fixed capital whereas a large scale enterprise requires more fixed capital.

- **Government Subsidy (Concessions):** Fixed capital requirement depends on the concessions (subsidy) offered by the government. For example, government may supply land at a concessional rate or may supply machinery on installment basis or offer term loans on easy terms. In such cases, the amount of fixed capital required may be comparatively less as certain fixed assets will be available at lower prices. Such concessions are normally offered for establishing industrial units in industrially backward areas.

- **Type of Product Manufactured:** The type of product manufactured determines the amount of fixed capital. Such product may be large (motor car) or it may be a small (soap or plastic jar.) If the product to be manufactured is big and needs sophisticated plant, the fixed capital requirement will be more. However, if the product is small and needs limited number of machines for manufacturing, the amount of fixed capital required will be limited. Finally fixed capital required will be more if each and every part is manufactured within the company only. On the other hand, fixed capital required will be less if some components are purchased and assembled in order to complete the product.

- **Method of Manufacturing (Technology Used):** The method of manufacturing may be manual or mechanical. Similarly, it may be both manufacturing and assembling or simply assembling of accessories. This factor determines the amount of fixed capital. For example, if the production method is simple with stress on manual labour, the fixed capital requirement will be less. However, if the manufacturing process is highly mechanical, more fixed capital will be required. Similarly, a company requires limited fixed capital if it is engaged in the assembling work. However, a company manufacturing all components of the product and also handling their assembling requires more fixed capital.

- **Method of Acquiring Fixed Assets:** The method of acquiring fixed assets determines the amount of fixed capital. The assets can be purchased outright or on installment basis or on rental basis (lease). Fixed capital

required will be more if land, machinery, etc. are purchased on full payment. On the other hand, fixed capital required will be less if the machinery is purchased on installment basis and land is acquired on lease basis. Similarly, a company purchasing machinery as per latest technology will require large amount of fixed capital whereas the fixed capital requirement will be less if secondhand machinery is purchased.

- **Scope of Activities Undertaken:** A company may be engaged in the production as well as marketing of its product. Such a company will need substantial fixed capital. On the other hand, a company concerned only with production and not with distribution will need less amount of fixed capital. Similarly, more fixed capital will be required if the company is manufacturing by-products and ancillary parts along with the main product line. This is natural as investment in fixed assets will be more.

All factors noted above need to be considered collectively while determining the fixed capital requirement of a business unit. Such capital requirement should be calculated properly as faulty calculation leads to over or under capitalisation. Even excessive investment in fixed assets should be avoided as such investment is unnecessary and reduces overall profitability of a business unit.

Sources of Finance: Sources of finance or capital requirements for establishing a business enterprise and ensuring its smooth working can be classified under two broad or main categories, viz. fixed capital and working capital. These two types of capital constitute the aggregate funds necessary to procure physical assets and secure monetary arrangements for starting and operating a business enterprise.

Sources of finance for establishing and running a business enterprise may be classified under the following major heads:

A Fixed/Long Term Capital

Funds required to acquire fixed assets or meeting the cost of project is termed as fixed or long term capital. The total amount of fixed capital is determined through project capital cost estimate. To meet the cost of the project.

The following long term sources or of fixed capital are available to the business entrepreneurs:

- **Equity Capital:** Equity capital refers to ownership capital which do not carry any special or preferential right in respect of annual dividend or the return of capital in the event of winding up of a company. The liability of equity shareholders is limited to their capital contribution only. The holders of the equity capital also have voting rights. Equity capital provides strength to the financial structure of the company. It is also called risk or venture capital for it enables the enterprise to absorb all sorts of financial stress and strains. It acts as the base. It represents permanent capital. However, the cost of equity capital is relatively high. Equity

capital is required for purchasing fixed assets, such as, land, building, machinery, furniture, equipment etc.

- **Preference Capital:** Preference capital is the capital on which the preferential shareholders carry the following preferential rights over other classes of shareholders:

(i) A preferential right as to payment of dividend over other class of shareholders, and (ii) A preferential right as to repayment of capital in case of winding up of the company in priority to other classes of shares.

Preference shares may be

- (a) cumulative or non- cumulative
- (b) participating or non-participating
- (c) redeemable and non-redeemable
- (d) convertible and non-convertible.

Preference shares have the merit of not being a burden on finances for the preference dividend is payable only when there are profits. If the company runs into losses, it can defer the payment of dividend or omit to pay dividend. Preference shares are cheaper as compared to financing to equity shares.

- **Debentures:** Debentures are creditorship securities representing long term indebtedness of a company. It is contractual obligation on the company to pay a fixed amount on a specified date at stated rate of interest at regular intervals. Debenture holders do not carry any voting rights and no share in the prosperity of the company. They are of the following types that commonly used in India, viz., (i) convertible debentures, (ii) partially convertible debentures, and (iii) non-convertible debentures, (iv) secured debentures, and (v) unsecured debentures.

- **Term Loans:** Term loans are an important source of finance. Term loans are those loans which are provided by specific financial institutions for specific period usually ranging from 10 to 25 years. They carry a fixed rate of interest are repayable in installments. Term lending institutions generally insist on promoters' contribution margin money from entrepreneurs. They also grant a moratorium period during which the repayment of capital is not provided for. This period generally corresponds to the gestation period. The institutions providing term loans have been mostly established by the Government. These institutions have been set up both at the all India level and state level.

Following are the important financial institutions operating at all India level:

- Industrial Finance Corporation of India Ltd.(IFCI)
- Industrial Credit and Investment Corporation of India (ICICI).

- Industrial Development Bank of India (IDBI).
- National Bank for Agriculture and Rural Development.(NABARD)
- Industrial Reconstruction Bank of India.(IRBI)
- ICICI Securities and Investment Limited.
- Export and Import Bank of India (EXIM BANK).
- Unit Trust of India.(UTI)
- Industrial Investment Bank Limited (IIBL).
- Life Insurance Corporation of India. (LIC)
- **Retained Earning:** Reserves and surpluses build over the past are called retained earnings. These earnings can be reinvested in business for modernisation and expansion etc. From the owner as well as cost of capital point of view, it is a source, similar to equity share capital. However, it should be noted that over a period of time, the retained earnings get developed into working capital. The cost of retained earning is very cheap compared to cost of equity.
- **Deferred Credit:** Normally, the suppliers of machinery provide deferred credit facility under which the payment of machinery is made over a period of time. The interest rate on deferred credit and period of payment vary rather widely. Normally, the suppliers' offering deferred credit facility ask for bank guarantee from the buyer.
- **Capital Subsidy:** The central and state Governments are providing subsidies to industrial units located in backward areas. The Central Government subsidy is not exceeding 15% of the fixed capital or Rs. 15 lakh. The state subsidies vary between 5% to 25% of the fixed investment in the project, subject to a ceiling varying between Rs. 0.5 million and Rs. 2.5 million depending on the location of the project.
- **Public Deposits:** Financing through public deposits originated in the Cotton Textile Industry mostly localised in the then State of Mumbai, particularly in Mumbai and Ahmedabad. The mills used to accept deposits from the public for a short period when the production season begins. These deposits used to be paid after the cloth produced was sold and the proceeds realised.

In course of time, the system became operative throughout the country. It also resulted in malpractices being adopted by unscrupulous management. The deposits were not returned in time nor interest was paid. In many cases the borrowers disappeared after accepting public deposits. Hence, the Companies Act regulated the acceptance of public deposits by introducing section 58 A. Now rules for acceptance of public deposits have been made more stringent and heavy penalties have been laid down for not paying interest or returning the deposits.

- **Unsecured Loans:** Unsecured loans are provided by promoters to fill the gap between the promoters' contribution required by the financial institutions and the equity capital subscribed by the promoters. These loans are considered as subsidiary to the institutional loans.

- **Foreign Currency Term Loans:** Financial institutions also provide foreign currency term loans to meet the foreign currency expenditure towards import of plant, machinery and equipment and also towards payment of foreign technical know how fees.

9.5 SHORT TERM FINANCE/CAPITAL

Short term sources of finance are used to meet the working capital requirements of the business enterprise. In other words, short term finance/capital is that which is used in conducting the daily operations of the business enterprise.

The sources of short term finance/capital may be summarised as under:

- **Loans from Commercial Banks:** Short term financial needs are working capital need. In order to meet short term financial requirements it is usual to take financial assistance from commercial banks. Commercial banks, private sector banks and even foreign banks provide short term and medium term financial assistance.

Banks usually provide assistance in the form of:

- Overdraft
- Cash credit
- Loans and advances.

Some banks also provide short term financial assistance by discounting bills receivable. Commercial banks usually charge a high rate of interest and insist on security as they cannot risk investors funds.

- **Sundry Creditors:** Trade credit available against purchase of materials to meet the working capital needs of the business enterprise is called trade credit provided by sundry creditors. It is considered as the largest source of short term finance/capital. In an advanced economy, most buyers are not required to pay for goods on delivery. They are allowed a short term credit period before payment is due. Trade credit is made available to buyer on an informal basis without creating any charge on assets. Trade credit mode of short term financing depends on the terms and conditions of trade credit, reputation of the buyer, financial position of the seller and volume of purchases to be made by the buyer.

- **Cash Advances from Customers:** Manufacturers engaged in producing costly goods involving considerable length of manufacturing time usually demand cash advance from their customers at the time of accepting their orders. It is a cost free source of short term finance.

- **Indigenous Bankers:** Indigenous bankers are private money lenders engaged in the business of financing small and local business units. They provide short-term finance and charge exorbitant rates of interest. They are costly source of small term of finances.
- **Short-term Borrowings:** A business enterprise may resort to short term borrowings in case of emergency or pressing needs. Short term borrowings may include loans from friends and relatives, loans from directors or sister business units. They are normally for a period upto six months. The cost of these funds is usually quite nominal.
- **Owner's Own Funds:** The owner's funds go partly to meet expenses towards acquisition of fixed assets like land, building, plant, machinery, equipment etc. Remaining amount is called margin money which is used to meet the working capital requirements of the business enterprise.

Venture Capital Funding (VCF)

In India, venture capital was at first the province of developmental financial institutions such as the Industrial Development Bank of India (IDBI), the Technical Development and Information Corporation of India (now known as ICICI), and the State Finance Corporations (SFCs). The first origins of Modern Venture Capital in India can be traced to the setting up of a Technology Development Fund (TDF) in the year 1987-88, financed by a levy on all payments for technology imports. TDF was meant to provide financial assistance to innovative and high-risk technological programs through IDBI.

Private venture capital began to emerge when the economic liberalisation process began in 1991. Sources of funds were the financial institutions, foreign institutional investors or pension funds and high net-worth individuals. Though an attempt was also made to raise funds from the public and fund new ventures, the venture capitalists had hardly any impact on the economy for the next eight years.

Nature and Scope

Venture capital results best where it is not in any restrictions. The venture capital as a financial intermediary is very popular in the US and the UK and in both places they don't believe in having parameters for venture capital.

The entrepreneurs benefit from venture capital funding as it allows them to actually realise their ideas and innovations. Thus, the presence of constraints regarding amount of investment, nature of technology, may act as hurdles to promote innovative ideas.

It benefits both the investors as well as the entrepreneurs. There is a rise in the market valuation of these equities plus the entrepreneur can attain the equity capital.

Important Features

The important features of venture capital funds are that they are a long-term investment. Investors of venture capital hope that the company they are backing will prosper and that after five to seven years from making the investment, it will multiply and become profitable enough to sell its shares in the stock market. For that period of time the investors don't get any returns. But finally they get the returns for their waiting. The investor hopes to sell his share for many times more than what he paid for, but if the entrepreneur fails the complete investment is lost. Thus, the main features could be summed up as having long-term investment, purchasing equity shares, financing new and rapidly growing innovative technology, and thus taking risks.

These qualities of venture capital particularly suit the developing technologies, and new innovations and ventures. The venture capitalists receive 20 to 25 percent of the ultimate profits of the partnership. The investors include individuals, as well as institutions such as LIC, companies, trusts, and even universities.

The investor appraises the proposal and evaluate the most promising venture and takes stakes in them.

As in India the venture capital fund are the administered by IDBI and they form the main part of the market.

Some people are endowed with good product ideas, but lack the necessary funds to translate these ideas into production. The concept of venture capital was evolved to help such persons. Venture capital is a form of equity financing of projects with high risk and high return. It is meant for financing high technology projects. Besides financing high technology, venture capital fosters the growth and development of industries. It helps to convert research and development projects into commercial production.

The term venture capital comprises two words "venture and capital." The venture means a course of proceeding, the outcome of which is uncertain but which is accompanied by risk of danger of loss. Capital means resources to start business. Thus, 'venture capital implies committing resources (capital) to enterprise that has risk and adventure i.e., funds made available for financing of new business ventures from scratch is called 'venture capital'. This definition incorporates all high risk and high potential investments. Venture capital is to finance the early stage of a new enterprise which is risky and wants to grow rapidly. It is the investment of long term risk finance in new and untried enterprises that are lacking a stable record of growth. It has now become an important source of finance of new enterprises. According to *Journal of Central Bank, U.K.*, "Venture capital is an equity by which an investor supports an entrepreneurial talent with finance and business skills to exploit market opportunities and thus obtain long term market gains."

The concept of venture capital originated in the USA. U.S.A. is the birth place of venture capital where there are more than 600 active venture

capital firms. Further, there are full-fledged venture capital funds in U.K. and Japan also. Now it has become a world-wide concept in the field of funding technology-based industrial projects. It is of recent origin in India. IFCI started this concept in 1975 by setting up 'Risk Capital Foundation' (RCF). RCF was converted into a company known as 'Risk Capital and Technology Corporation Limited' (RCTC) in January 1988.

IDBI also started a venture capital fund scheme in 1986. The ICICI also set up the 'Technology Development and Infrastructure Corporation of India (TDICI) in 1988. TDICI provides technological information and finances intensive development activities including commercial research and development. It also manages the venture capital fund of Rs. 20 crores which ICICI has set up along with UTI in 1988.

Besides, public financial institutions, commercial banks have also entered venture capital business. SBI capital markets, Can Bank Financial Services and Grindlays Bank have established venture capital funds. The India Investment Fund of Grindlays Bank provides venture finance to suitable projects of NRIs.

In the private sector, the Credit Capital Corporation launched Credit Capital Venture Fund India Ltd. with the help of Asian Development Bank and Commonwealth Fund.

The Tata Group's Investment Corporation of India successfully promoted a number of enterprises like Associated Bearings, Ceat Tyres during pre-independence period.

Guidelines for Venture Capital: Government of India issued certain guidelines regarding establishment and functioning of venture capital funds. These guidelines are as follows:

- **Establishment:** All India public financial institutions scheduled commercial banks including foreign banks operating in India and their subsidiaries would be eligible to start venture capital funds/companies subject to approval from the Reserve Bank of India/Government of India.
- **Size:** The minimum size of a venture capital fund/company would be Rs. 10 crore. If it desires to raise funds from the public, the promoters' share shall not be less than 40 per cent. The minimum debt equity ratio would be 1:15.
- **Assistance:** Assistance would be provided mainly to enterprises with comparatively high risk due to technology/entrepreneur being relatively new. The total investment in the enterprise should not exceed Rs. 10 crores.

The above mentioned guidelines give freedom with regard to pricing of shares. They allow disinvestment by a public issue of offer for sale by a venture capital company. They permit the capital gains of the company to be taxed at a rate applicable to individuals, which is for lower than the corporate rates.

However, there is need for liberalising the guidelines. The foremost requirement is to create avenues for disinvestment by venture capitalists. The existing stock market cannot serve the purpose due to a number of restrictions and stipulations of listing. If an unlisted securities market is created then the venture capitalists would be able to reap capital gains quickly. To encourage private corporation to participate in venture funds, consortium approach may be adopted. Further, in order to encourage venture capital, necessary concessions and facilities should be given in Income Tax Act.

Venture capitalists themselves should take up the task of promoting entrepreneurs. They should identify business opportunities, develop business plans and match with the prospective entrepreneur who is in a position to avail these opportunities. Further, an agency must be established to bring together the venture capitalist and the entrepreneur.

Documents required to be filed for raising financial assistance from entrepreneur capital fund.

The following document required to be filed by a new entrepreneur for raising financial assistance from entrepreneur capital fund.

- Copy of temporary registration certificate from District Industry Centre.
- Copy of letter/permission for obtaining permission to establish industrial shed.
- Copy of the letter for obtaining license from Industries (Development & Regulation) Act.
- Copy of clearing certificate from Environment Protection Act.
- Copy of the letter taking electric connection.
- Copy of the letter for water supply connection.
- Copy of Feasibility Report.
- Copy of the letter of the certificate of Promotor's Contribution.
- Copy of the letter containing description of total financial requirement.
- Copy of the letter stating amount of risk involved in the project.
- Copy of the certificate if the entrepreneur belong to scheduled caste, ex-serviceman or widow or any other reserved class.
- Copy of the letter containing technical details of the project.
- Copy of the letter stating that all legal requirements have been complied for establishing new enterprise.

- Copy of the letter if the industrial unit is to be established in backward and undeveloped area.
- Any other essential document.

9.6 ROLE OF AN ENTREPRENEUR IN ECONOMIC GROWTH AS AN INNOVATOR:

Entrepreneurs play a vital role in economic growth of a country. Economic growth is a process by which the per capita income and total income of a country increases during a given period. Entrepreneurs serve as the catalysts in the process of rapid industrialisation and economic growth. In the process of economic growth of a country, the entrepreneur plays a motivator role. The process of economic growth cannot proceed onward without the active support of the entrepreneur. It is the entrepreneur who collects the natural, economic, human and technical resources of a country and exploits them in the economic growth of a country. According to **Joseph Schumpeter**, "*The rate of economic progress of a nation depends upon its rule of innovation which in turn depends upon distribution of entrepreneurial talent in the population*". It is the entrepreneur who collects, organises and puts in use all the available resources of the country in the economic growth along with their optimum utilisation.

The major roles of an entrepreneur in the economic growth may be summarised as under:

(1) Role as an Innovator: The entrepreneurial role has long been recognised as an innovator. A person not performing innovator role cannot be called entrepreneur. According to Joseph Schumpeter, an individual to be called an entrepreneur must have innovative quality. Entrepreneurship essentially means doing things that are not generally done in ordinary course of business. An entrepreneur discovers and develops new ideas; new product; new methods of production; opening new markets; new sources of supply of raw material; new type of industry; new enterprises; new methods of solving business problems; new organisations new combinations; and new opportunities. Innovation is the process of putting new ideas into action. The higher the rate of innovation, the higher will be the rate of economic growth. He is a catalyst of change. Entrepreneurs do different things in different ways. He weaves old ideas into new patterns and tend to tackle the unknown. According to *W.T. Esterbrook*, "Entrepreneur is an innovating giant who encourages production of new products in the industry, new techniques of production, new machinery use of new raw-material, use of new technology and establishment of new industries. According to *Edmunds Bark*, "Entrepreneur, in the true sense, is a greedy for new things." According to *Peter E Drucher*, "Innovator is always in search of changes and exploits it as and when the opportunity arises." In this direction, innovation is a tool of change. An innovator is basically a creative person, because creativity is a prerequisite for innovation and it can be developed in any individual especially where

there is concern for excellence. Creativity has been defined as the ability to bring something new into existence. An entrepreneur creates a new product, a new market, a new method of marketing and new ideas of manufacturing a product. He conceives a creative idea and develops the idea into a business proposition, acquires resources such as land, labour capital and produces the goods and services to market them with the co-operation and support from external sources who can influence the success of an innovation.

According to *Joseph Schumpeter*, entrepreneurship is a creative activity. An entrepreneur is an innovator who introduces something new in an economy. Entrepreneurship is doing things that are generally not done in the ordinary course of business. According to *Schumpeter*, Innovation may be in:

- Introducing a new manufacturing process that has not been tested and commercially exploited as yet.
- Introducing of a new product with which consumers are not familiar or introducing a new quality in an existing range of products.
- Opening a new market, hitherto unexploited, where company products were not sold earlier.
- Locating a new source of raw-material or semi-finished product that was not exploited earlier.
- Developing a new combination of means of production.

From the above study, it is evident that an entrepreneur is basically an innovator.

• **Generation of Employment Opportunities:** Unemployment is the burning problem of the day. Unemployment is a common problem whether it is a backward economy, developing economy or even developed economy. Every year millions of youth come in the market in search of an employment in India and hardly 5 to 10% get employment. This problem of unemployment is becoming serious day by day. Growing unemployment particularly educated unemployment is the most acute problem of our country. So far as the Government sector is concerned, doors of employment are almost closed. For example, anyhow when government creates, say a hundred jobs in various departments, hundred persons get employment and vacancies are filled for 35 years or so, till these people retire and the vacancies re-emerge. Due to all round corruption in the government sector, an ordinary person with limited financial means cannot even think of getting a job in the government sector. What to say of a higher job, even for the lowest cadre job like peon, policeman, chokidar or primary school teacher one must be prepared to pay at least Rs. 50,000 as bribery. On the contrary, it is the entrepreneur who generates employment opportunities both directly and indirectly. Directly, self-employment as an entrepreneur offers the best way for independent and honourable job. Indirectly, by setting up large, medium

and small scale sized business units they offer jobs to millions. For example, if one hundred person become entrepreneurs, they not only create a hundred jobs for themselves but also provide employment to an army of unemployed youth. As the time passes, these entrepreneurs grow providing direct and indirect employment. Thus, entrepreneurship is the best way to fight the evil of unemployment and generate employment opportunities in the country.

- **Complementing and Supplementing Economic Growth:** Economic growth is a continuous process right from a backward economy to a developed economy. It never ends. It is universal. Even the most developed countries of the world like U.K., Japan, Germany, U.S.A. had to pass through this process. Similarly, no business or industry can develop over-night. It has to pass through long process of economic growth. Entrepreneurship is a key to complementing and supplementing economic growth. In fact, entrepreneurial development is a prerequisite for economic growth and development.

There was a time when it was felt that the government should play an important role in the development of business and industry. Government was considered as the most important agency for complementing and supplementing economic growth. However, the latest government's disinvestment policy in public sector units is a burning example of the fact that the Government has now come to realise that it should concentrate only on purely governmental functions like defence, social security and administration. It should not take economic functions which could well be left for private entrepreneurs.

A large number of industries which were reserved for public sector are opened to private sector. For example, electric, generation, petro chemical industries, national high ways and bridge construction, education, public transport are being opened up for private entrepreneurs. Telecom sector has recently been opened to private entrepreneurs. As a result number of international players have emerged in the field. For example, Airtel, Motorola, Hutch, Idea etc. have complemented government's effort to provide telecommunication services.

Moreover, entrepreneurs are also supplementing Government efforts in other sectors also. For example, it is the primary duty of the Government to provide educational facilities to all. However, in order to supplement Government efforts in the field of providing education, large number of private entrepreneur have started educational institutions right from the primary education to the technical education, such as engineering, medicines, hospitality industry, hotel management, hospital administration, electricity generation, distribution and provision of infrastructural facilities.

From the above study, it is evident that the entrepreneurs are playing their vital role in complementing and supplementing economic growth.

- **Role in Bringing about Social Stability:** Entrepreneur has an important role in social stability. Social values, forms, behaviour, beliefs, traditions and conceptions, etc. play vital role in the formation of entrepreneur's tendencies. After all man is a social animal. Entrepreneur, being a man, is also a social animal. Hence it is but natural that he is also affected by social environment.

The last three centuries *i.e.*, 18th, 19th and 20th centuries have seen unprecedented social change. However, the pace of social change has been very slow during the 18th century. It was faster during the 19th century and fastest during the 20th century. The industrial revolution changed *i.e.*, industrial scene. Further the new industrial policy announced on 24th July, 1991 was responsible for rapid economic development. Production which was earlier confined to our local limits became international in character *i.e.*, goods were not produced at the place of consumption but were produced in that country which possessed vast resources and were to be consumed in several countries of the world. The policy of liberalisation, privatisation and globalisation has given further encouragement to the economic development of the country. The country is approaching at a fast rate towards developed economy.

However, it has given rise to concentration of economic power in few hands only. The poor has been more poorer and the rich has become more richer. The social life is becoming bitter and bitter day by day. The social life has been adversely affected and the country is proceeding towards social instability.

Under the above circumstances, there is an urgent need of bringing social stability in the country. It is the entrepreneur who can bring social stability by establishing new small enterprises. Emergence of new entrepreneurs will check concentration of economic power, create new employment opportunities, overall economic development of the country and finally bring social stability.

- **Role in Balanced Regional Development of Industries:** Industrial development has a tendency to establish and develop industries, big or small, in metropolitan cities like Delhi, Mumbai and Chennai and in big towns. This brings to unbalanced regional development of industries. In this context also, entrepreneurs are required to play an important role in balanced regional development of industries. They set up industries particularly in backward areas to avail of the various concessions and subsidies offered by the Central and the State Governments.

The Government of India and the State Governments are also trying to disperse the industries by establishing industrial estates and creating infrastructural facilities in backward areas.

- **Role in Export Promotion:** Entrepreneurs are required to play an important role in export promotion. Export promotion reduces unfavourable balance of trade, decrease imports and increase exports. It also increases valuable foreign currency reserves. Various facilities,

incentives and subsidies are provided by the Central and State Governments in the field of export promotion. Increasing number of entrepreneurs, both old and new, are taking benefits of incentives, concessions and subsidies as both the Central and State Governments. Government offers these benefits.

9.7 QUESTIONS

1. What is meant by raising of funds? Explain the need for estimating funds requirement.
2. Discuss the sources of finance for establishing a business enterprise.
3. State and explain the capital requirements for establishing a business enterprise.
4. Write a note on Venture Capital.
5. Name the documents required to be filed for raising financial assistance from entrepreneur capital fund.
6. State and explain the role of an entrepreneur in economic growth as an innovator.
7. What factors and sources will you consider to estimate your working capital and fixed capital requirements?
8. Draft an ideal project report to be submitted to a financial institution for a term loan.



INCENTIVES AND ASSISTANCE TO ENTREPRENEUR

Unit Structure

10.1 Introduction

10.2 Need and Importance of various Subsidies

10.3 Export Incentives

10.4 Incentives available to SSI units in backward/rural project areas

10.5 Questions

10.1 INTRODUCTION

The Governments both at Central and State levels have been offering incentives, subsidies and changing the policies periodically in order to motivate the new entrepreneurs keeping in mind the need for economic growth at various regions. On one side it is essential to stimulate entrepreneurial spirit of new businessmen and develop the existing ones for modernisation, expansion, diversification and to help make maximum use of the resources. Various schemes are in operation since last 5 decades and these have been quite helpful in industrialisation of the country. However, there are many instances where the incentives offered have been misused. Without encouragement of incentives and subsidies it is nearly impossible to develop industries in backward areas and backward districts. In a globalised competition it is also essential to modernise machineries and technology to be competitive.

10.2 NEED AND IMPORTANCE OF VARIOUS SUBSIDIES

- **To improve existing units**

Many of the engineering industries started in the pre-independence period are now out-dated in terms of machineries, tooling, processes and the overall technology. This has put India far behind the developed countries in technology and products. The liberalisation process started in 1991 was aimed to eradicate this imbalance which was the only way to make Indian Industry survive in global competition. Hence industries are given loans, other assistance and guidance for modernising the units and for technical collaborations.

- **To reduce regional imbalances**

It was observed that the private entrepreneurs were not taking any interest in starting industrial activity in backward areas. This was creating unemployment problem and low-level of living conditions in these areas compared to other areas. For social justice and to have peaceful environment there was a need to create scope for developing employment schemes in backward areas. Backward areas have many disadvantages like lack of raw materials, poor market, unskilled labour and poor infrastructure. In order to offset these disadvantages it was felt essential to offer some incentives.

Advantages of Incentives and Subsidies

- Incentive acts as motivators and encourage both potential industrialists and also existing industrialists.
- Incentives help as compensatory factors for various disadvantages for starting industries in backward areas.
- Regional development and employment opportunities improve.
- The assistance for modernisation and upgradation of technology improves competitive ability.
- Promotion of industries and development of national economy will enhance by popularizing and investing on the incentives.

Drawbacks of Incentives and Subsidies

- Industrial in backward areas were started mainly to claim subsidies and incentives.
- Subsidies and incentives are granted on consideration of favours and nationalism.
- Documentary record is created for high capital instrument with the object to be claim high amount of subsidies by dishonest claim and officials.

10.3 EXPORT INCENTIVES

Several export incentives are available to Small Scale Industries in India. The Government has been offering liberal concessions and subsidies to the entrepreneur to build up infrastructure and entrepreneurship base in the country. These concessions and subsidies broadly cover allotment of land at a very low price, tax holiday, capital subsidy transport subsidy, exemption from excise duties, sales tax and relief from certain labour laws

Government offers several types of incentives to promote exports. Export incentives are notified in the Exim Policy.

The main incentives available to Indian exporters are as follows:

- **Export Promotion Capital Goods Scheme (EPCG):** Under the Export Promotion Capital Goods Scheme, an exporter is allowed to import capital goods subject to certain obligations or responsibilities to undertake export called “Export Obligation”. An exporter is allowed to import Capital goods (including spares upto 20% of the CIF value of the capital goods) under license, at a concessional rate of customs duty. This is subject to an export obligation to be fulfilled over a period of time. The period for fulfillment of export obligation shall be reckoned from the date of issue of the import license.
- **Duty Drawback (DBK):** Duty drawback means refund of customs duties and central excise paid on raw materials, components, packing materials, etc. Under this scheme, duties collected earlier are paid back to the exporter after the shipment of goods. So the exporter need not include these duties while he calculates the export price. This will make the export goods, cheaper in the foreign market without any financial loss to the exporter. This is how duty drawback scheme is useful for promoting exports.
- **Exemption from Income Tax:** Income from export is fully exempted from the payment of income tax, under section 80 HHC. A five year holiday is provided to 100% EOUs and units in FTZs/EPZs.
- **Sales Tax Exemption:** Export goods are also exempted from the payment of sales tax. Necessary documents are to be provided to the sales tax authorities, giving proof of export, in order to claim sales tax exemption.

The exporters are also offered incentives, such as octroi refund, rail freight rebate, replenishment license, cash assistance, etc.

Capital Investment Subsidy: Capital investment subsidy is the most important form of incentive announced by the Central Government as well as the State Governments to foster the growth of small industries in the backward regions of India. At present capital investment subsidy is granted to the small industrial units under two schemes of the Union Government and the State Government. Under Central Capital Investment Scheme, the Government of India provided investment subsidy @ 25% of fixed capital investment (Investment in land, building, plant and machinery) to the industrial units being set up in the No Industry Districts.

The State Government offers investment subsidy amounting to 15% of the total investment in fixed assets to new industrial units being set up in the districts which have not been identified as backward districts.

Further, the State Government provides additional capital investment subsidy of 5% to industrial units being set up by the tribal entrepreneurs in the Districts other than no industry districts, making the rate of investment subsidy to 20% of the fixed capital investment in land, building, plant and machinery.

Besides this, the Union Government has very recently announced a special Employment Scheme under which general subsidy @ 25% is granted for establishing small industrial business or professional units with total capital investment of not more than Rs.25,000. This scheme is in the process of its implementation through the D.I.Cs all over India.

Subsidy on Transport

Some of the areas which are remote and inaccessible require extra expenditure on transport. These areas are sikkim, Jammu and Kashmir, Himachal Pradesh, Uttaranchal State, North eastern Region and Islands of Lakshadweep, Andaman and Nicobar, Many cottage industries, handicrafts and village industries were finding it difficult to sell their products to different regions. Also getting industrial raw-materials was proving costlier due to higher transport cost as hilly regions have circuitous routes. Hence transport subsidy of 50% to 90% for different regions is provided for both incoming raw-materials and out going finished products. The Air services for these reasons is also made very economical so that movement of men and materials is affordable.

Value Added Tax (VAT): Since April 1, 2005, 21 states out of total 29 and all union territories have implemented VAT. All BJP ruled five states (Madhya Pradesh, Chhattisgarh, Rajasthan, Gujarat and Jharkhand) and three other states (Uttar Pradesh, Uttaranchal and Tamil Nadu) have not yet adopted VAT. A nation-wide businessmen strike took place for continuous three days from March 30 to April 1, 2005 against the implementation of VAT in the country.

- Introduction of VAT would help avoid cascading nature of sales tax.
- Present multiple rates and taxes can converge into a few rates and a single VAT.
- Transparency in the system of tax administration through simple self-assessments and departmental audit.
- Rationalisation of taxes to result in lower tax burden and higher tax revenues.
- To avoid tax competition, the design of State VAT needs to be harmonised even as the distinctive needs of individual States are recognised.
- State VAT to have two basic rates of 4 per cent and 12.5 per cent and to cover 550 commodities. About 270 commodities will be under 4 per cent rate.
- 46 items, comprising of natural and unprocessed products in unorganised sector, items legally barred from taxation and items having social implications, are exempt from VAT.

- Gold and silver ornaments subject to a special VAT rule of 1 per cent and other commodities to attract a general VAT rate of 12.5 per cent.

10.4 INCENTIVES AVAILABLE TO SSI UNITS IN BACKWARD/RURAL PROJECT AREAS:

The Government has been offering liberal concessions and subsidies to the entrepreneur to build up infrastructure and entrepreneurship base in the country. These concessions and subsidies broadly cover allotment of land at a very low price, tax holiday, capital subsidy transport subsidy, exemption from excise duties, sales tax and relief from certain labour laws if the project is to be set up in backward areas. There are numerous tax successions as a result of which new enterprises incur little tax liability in the initial period.

These important incentives include:

- **Tax Holiday:** Industrial units in the medium and large sectors which would be set up in the backward States are also eligible for tax-holiday under Sec. 80-1A profits of a new industrial enterprise are exempted from tax upto 6 per cent of the capital employed for a period of five years from the year in which production commences.
- **New Investment Subsidy:** A unique development rebate permits a deduction, from taxable income, of 35 per cent of the cost of new plant and machinery instilled in priority industries. In fact, this enables an assessee to depreciate new plant and machinery at 135 per cent of cost, thereby securing a substantial investment subsidy from the Government. Development rebate is allowed under certain conditions even on second hand plant and machinery, newly imported from abroad.
- **Special Deduction in Regard to Priority Industries:** A special deduction in the computation of taxable income of an amount equal to 8 per cent of the profits from business was allowed in the case of companies engages in industries commending high priority.

10.5 QUESTIONS

1. What are the incentives available to SSI units in backward/rural project areas? Explain Value Added Tax (VAT) in brief.
2. What are the export incentives available to Small Scale Industries in India?
3. Explain the need and importance of tax benefits to small-scale industries.
4. Write about various incentives and subsidies provided to the entrepreneurs.
5. Discuss the Government policies before and after liberalisation.



DISTRICT INDUSTRIES CENTRE AND EDP PROGRAMME

Unit Structure

11.1 Introduction

11.2 Objectives

11.3 Functions

11.4 Achievements of EDP's

11.5 National Entrepreneurship Development Board (NEDB)

11.6 Questions

11.1 INTRODUCTION

District Industries Centre (DIC) scheme was introduced under Industrial Policy of 1977. Under this scheme, each District shall have a DIC. It was decided to make the district headquarters as the focal point for development of small scale and cottage industries. The District level which provide all the services and facilities to the entrepreneurs at one place for setting up small scale and rural industries.

The aim of District Industries Centre is to provides all the services and assistance required by the small entrepreneurs such as identification of a suitable scheme, preparation of feasibility report, arrangements for supply of machinery and equipment, provision of raw materials, credit facilities etc. District Industries Centres provide all these facilities to the entrepreneurs at the district levels under one roof, and thus help the entrepreneurs to receive all the assistance required by them from one agency itself without running from pillar to post.

11.2 OBJECTIVES

The aim of District Industries Centre is to help the small industries and rural artisans in the backward areas. The District Industries Centre Scheme also aims at helping the weaker sections of the community in the rural and backward areas to set up village industries and improve their economic conditions. The DIC provides all the services and assistance required by the small entrepreneurs such as identification of a suitable scheme, preparation of feasibility report, arrangements for supply of machinery and equipment, provision of raw materials, credit facilities etc. District Industries Centres provide all these facilities to the entrepreneurs at the district levels under one roof, and thus help the entrepreneurs to

receive all the assistance required by them from one agency itself without running from pillar to post.

The District Industries Centres play an important role in developing entrepreneurship. The entrepreneur need not approach several agencies for assistance as all the assistance required by them are available through DIC.

11.3 FUNCTIONS:

The District Industries Centres play an important role in developing entrepreneurship. The entrepreneur need not approach several agencies for assistance as all the assistance required by them are available through DIC.

- Training unemployed youth in basic skills to enable them to take up self employment and other jobs in industrial units.
- Training in Handicrafts is imparted to unemployed youth.
- Training in Coir works are given to village youths.
- The PMRY scheme was implemented in this region since 1993 onwards. Selected beneficiaries are given financial assistance through banks.

Each DIC will have a General Manager, seven functional Managers and other supporting staff. The General Manager will be the head of the DIC and will coordinate with all the above agencies for operating these programmes in the District. The District Industries Centre programme will be monitored at the District level, State level, Regional level and at the central level so that the DICs work effectively to meet the objectives for which they have been set up. A Central co-ordination Committee has been set up with the Ministry of Industry as its Chairman and the Development Commissioner (Small Scale Industries), Minister of Industry as its Member Secretary. At the District level the District Advisory Committee will have District Collector as the Chairman and will provide guidance to the DIC (District Industries Centre) on the various aspects of development.

Entrepreneurial Development Programme: EDP is a short form of Entrepreneurial Development Programme. Entrepreneurial Development Programme may be defined as a programme designed to help the entrepreneur in strengthening and fulfilling his motive in acquiring skills, capabilities to promote and manage his enterprise more efficiently and effectively, and thereby playing his entrepreneurial role more effectively. Towards this end, it is necessary to promote his understanding of motives, motivation pattern, their impact on behaviour and entrepreneurial value. A programme which seeks to do all this can qualify as entrepreneurial development programme.

Various EDP are designed to develop and improve entrepreneurial skills and behavioural adjustment needed to go through the stresses of initial stages. Different programmes are designed for different trades, industries and big projects. For example, EDP for handicrafts will be different compared to EDP for SSI units Basically the EDP is to train and develop new entrepreneurs. However there are high expectations of employment opportunities, improving sick units and regional development.

The programme is essentially meant to develop first generation entrepreneurs, as they cannot attend various initial activities on their own. The developing process can cover one or more of activities like (a) selection of location, (b) machinery selection, (c) training of employees, (d) assistance for project report, (e) guidance for financial assistance, (f) training in sales and service and (g) changes and improvements in an enterprise. For women entrepreneurs there will be separate groups and training schemes suiting to their timings and areas of work.

EDP imparts required knowledge and skills. However this is not a guaranteed method of success and growth of an enterprise. The application of skills, environmental factors and consistent efforts by the entrepreneurs are essential for success of an enterprise.

Objectives of EDP's: The main objectives of EDP's are as follows:

- To identify and train potential entrepreneurs.
- To impart necessary knowledge and skill among the participants.
- To impart basic managerial understanding.
- To provide post-training assistance.
- To select the right project and product.
- To develop and strengthen entrepreneurial quality and motivation.
- To understand the rules, process, procedure and regulations for setting up the project.
- To know the sources of help, incentives and subsidies available from the Government to set up the enterprise.
- To analyse the environmental issues related to the proposed enterprise.
- The select the right project at the right time and at the right place.
- To acquire the basic managerial skills to run the enterprise efficiently and profitability.
- To generate employment and self-employment opportunities in the processing of indigenous raw-materials for local consumption and export.

- To promote and develop small and medium sized enterprises which would encourage self-employment to growing and potential entrepreneurs.
- To know the pros and cons of being an entrepreneur.

Role of EDP's: The entrepreneur lives under a constant pressure first to survive, then to stay alive and finally always to grow and withstand against competitors. It is the entrepreneurial development programme which comes to rescue him. Entrepreneurial development programme is a comprehensive and effectively human resources development programme. Entrepreneurial development programme is a systematic and organised programme which help in developing analytical ability, outlook, farsightedness, arousing and reforming entrepreneurial behaviour, enhancing the motivation, knowledge and skill, assisting and development his own ventures successfully, and above all gives confidence to face and solve variety of problems boldly and safely.

The role of entrepreneurial programme is increasing popularity day by day which is evident from the following:

(1) Enhancing Organising and Managerial Abilities: EDP's help the entrepreneurs to enhance their organising and managerial capabilities to run their enterprises efficiently and successfully. This is done through organising educational, management training and orientation programmes. Specialised agencies such as the National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi and Entrepreneurship Development Institute of India (EDII), Ahmedabad are engaged in entrepreneurial development programme. NIESBUD is an apex body responsible for co-ordinating and supervising the activities of different agencies engaged in entrepreneurial development. EDII is an all India body set up by public financial institutions and the Gujarat Government.

2. Enhancing Entrepreneurial Qualities: EDP plays a vital role in enhancing the qualities of an entrepreneur such as, analytical ability and farsightedness etc. so that he may be in a position to run his enterprise successfully. EDP help in development of these qualities through training, education (both technical and non- technical), experiments and orientation programmes.

- **Harnessing Local Available Resources:** Since abundant resources are available locally, proper exploitation of these resources will help to carve out a healthy base for sound economic and rapid industrialisation. The EDP's can help in harnessing these resources by training and educating the entrepreneurs.

- **Assists in Establishing the Enterprise:** EDP helps an entrepreneur in establishing his enterprise. It is done through various support services which provide funds, machinery and equipment, scarce raw materials and infrastructural facilities such as land/shed, power etc. through EDP's. development programmes.

- **Helps in Formulating Projects:** EDP helps an entrepreneur in formulating project by providing the entrepreneur necessary technical guidance and support. EDP helps him in formulating viable project within his means. It gives them necessary information regarding infrastructural facilities, machinery and equipment, their sources of supply along with addresses. Information regarding other inputs such as raw materials, labour, land and building, power, methods of production, testing and quality control is also made available.
- **Helps in Selecting Projects and Products:** EDP's play a vital role in helping the entrepreneur in selecting suitable projects and products, EDP's help him in evaluating the various projects and products and choosing the most suitable project and product which can be established and started easily, give him maximum profits and have good scope for further development.
- **Defuses Social Tension:** Every young person feels frustrated if he does not get the requisite employment after completing his education and training. The talent of the youth must be diverted to self-employment careers to help the country in defusing social tension and unrest among youth which is possible by EDP's only.
- **Strengthening and Fulfilling Motivation:** It is the EDP's which arouse motivation among young entrepreneurs through planned publicity if success stories of other successful entrepreneurs who are successful in setting up large sized and successful empires in and outside the country.
- **Helps in Searching and Exploiting Opportunities:** Many entrepreneurial opportunities are in various fields, whether it is electronic, medicine, engineering, agriculture, communication, atomic energy, telecommunication, food technology or packaging. Entrepreneurial opportunities have surfaced at rapid pace in all these and many other areas. Such opportunities, however, become more perceptible and profitable to entrepreneurs when exposed to latest developments in the respective fields either in terms of technology, use or style of living. Accessibility and understanding of such information widens the base of opportunity sensing by potential entrepreneurs. It is the EDP which provides necessary information, guidance and assistance in the search and exploiting these opportunities.
- **Balanced Regional Development:** EDP's help in balanced regional development and reduces concentration of economic power in few hands only. It is done by establishing small and cottage industries in remote areas with little financial assistance and local technical know-how. Balanced regional development of India lies in the development of small and cottage industries.
- **Miscellaneous:** (i) Increasing unemployment is the chronic problem of the day. EDP's can help the unemployed youth to opt for self-employment and entrepreneurial careers. Several programmes have been started and are in operation in India, (ii) Successful EDP's help in quick

industrialisation and reduces economic power in few hands only, (iii) EDP's help in removal of industrial slums in big cities by providing various housing schemes, incentives, subsidies and infrastructure facilities for setting-up own small scale industries, (iv) EDP's helps in eliminating poverty by providing several schemes of setting up small enterprises with small capital, (v) EDP's provides necessary training facilities to young entrepreneurs.

11.4 ACHIEVEMENTS OF EDP'S:

It is an open secret that no entrepreneurial development programme can be framed and implemented without its relevance to the social, economic, political and legal environment in the country. Research studies conducted in and outside the country have shown that countries which have implemented EDP's have attained high economic growth in various fields as compared to those which have not done so. It is a fact that economic development in a country is never an accident or chance. It is always a matter of design. It is a result of constant and positive efforts made by the state and its agencies.

Entrepreneurial Development Programme is a prerequisite for an overall economic development of any country. Entrepreneurial Development Programme is a process in which entrepreneurs are prepared to establish, develop and expand their business enterprises and face business uncertainties and risks boldly and calmly.

The major achievements of EDP's are as follows:

- **Practice-Oriented Training Programme:** EDP's have played an important role in the establishment, development and expansion of the practice oriented training programme. Training is an integral input of managerial and technical development which train both hand and mind. Training is must both for new and old entrepreneurs. The programme of training in entrepreneurship development is to develop motivation of potential entrepreneurs, help them in taking up suitable enterprises and activities, enable them to prepare economically viable and technically feasible project reports and enhance their enterprise building skills. Almost all the training programmes conducted in India are being organised and developed under the entrepreneurial development programmes. Creation of necessary infrastructure, preparation of training syllabus, designing tools and techniques for selection of trainees, preparation of training material, appointment of qualified trainers, identification of suitable and viable opportunity or enterprise (project), specific training in technical trades etc. are some of the steps taken under EDP's.

- **Support Systems:** After getting necessary training and thereby equipping himself with the necessary skills, the new entrepreneur is now ready to set up his enterprise. He requires assistance and support of many agencies. The strength and coordination of the support system forms the backbone of an EDP. Credit, service and implementing institutions form

the major support system. Such support systems have to function till such time a good number of entrepreneur are established and developed in the society. These support systems are established, developed and expanded by and through the EDP's.

- **Target Group:** In an entrepreneurial development programme, the target group refers to the group of persons for which the entire entrepreneurial development programme is designed and undertaken. Every target group has its own needs and constraints. Hence the EDP designed for one group might be inappropriate for other groups. The target group for whom the EDP's are designed includes business executives, technical and other qualified persons, women entrepreneurs, ex-servicemen, weaker sections of the society etc. It is the EDP's who designs the programmes according to the skill and needs of the target group.

Institutions Assisting EPD:

Before independence, private sector dominated all sectors of Indian economy and that too was concentrated in few hands only. However, after independence, Government of India recognised the need and the role of entrepreneurs in the process of rapid industrialisation and economic development. As such, several institutions engaged in conducting entrepreneurial development programmes were established by the Government both at centre and state level.

The major institutes conducting and organising EDP's are as follows:

(I) National Level Institutions: Some of the main institutions set by the Government of India at the centre level in the field of EDP's are as follows:

- **Management Development Institute (MDI):** Management Development Institute of India was set up in Gurgaon (Haryana) near Delhi in 1973. This institute has been sponsored by Industrial Finance Corporation of India. Its primary objective is to improve managerial effectiveness in the industry.

The Institute stands devoted to evolving model syllabus for training various target groups by effective training strategies, methodology, manuals and tools; facilitating and supporting Central/State governments and other agencies in executing programmes of entrepreneurship and small business development. MDI has put special efforts in maximising benefit and accelerating entrepreneurship development, conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies. The organising capacities of MDI that help in developing entrepreneurial culture is worth appreciation in society. The Institute is also the secretariat of the national Entrepreneurship Development Board (NEDB), the apex body which determines policy for entrepreneurship development in the country. MDI performs the task of processing the recommendations made by the Board.

Objectives: The main objectives of the Institute are:

- To accelerate the process of entrepreneurship development ensuring its impact throughout the country and among all segments of the society.
- To help/support institutions/agencies in carrying out activities relating to entrepreneurship development with greater success.
- To evolve standardised process of selection, training support and sustenance to potential entrepreneurs enabling them to set up and run their enterprise successfully.
- To provide vital information support to trainers, promoters and entrepreneurs by organising documentation and reach work relevant to entrepreneurship development.
- To provide functional forums for interaction and exchange of experiences helpful for policy formulation and modification at various levels.

Since development of entrepreneurship and self-employment is basically a promotional and industrial extension activity, the programmes organised by the Institute are mostly funded by the government. However, the institute's training activities are restricted to areas in which either demand for programmes is very great or there is absence of such training programmes.

M.D.I, conduct Management Development Programme in various disciplines. These programmes included the programmes for officers of the Indian Economic Service (IES), Indian Administrative Service (IAS) and for the executive of a number of PSUs of, like Oil & Natural Gas Commission (ONGC), Bharat Heavy Electrical Ltd. (BHEL), Bharat Aluminium Co. Ltd. (BALCO), Export Credit Guarantee Corporation of India (ECGC), Bureau of Indian Standards (BIS), Hindustan Zinc Ltd. (HZL), Hindustan Machine Tools Ltd. (HMT), Indian Drugs and Pharmaceuticals Ltd. (IDPL), Uttar Pradesh State Industrial Development Corporation Ltd. (UPSIDC), Madhya Pradesh Financial Corporation (MPFC), etc.

- **National Institute for Entrepreneurship and Small Business Development (NIESBUD):** It was established by the Government of India 1983 as an apex body working and overseeing the activities of various agencies engaged in entrepreneurial development programmes. It started functioning from 6th July, 1983.

National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, was established by the Government of India as an apex body for coordinating and overseeing the activities of various institutions and agencies engaged in entrepreneurship development. The institute gave importance to area of small industry and small business. The Institute is registered as a Society under the Government of India Societies Act XXI of 1860, started functioning from 6th July, 1983.

The aim of the Institute include evolving model syllabus for training various target groups, providing effective training strategies, methodology, manuals and tools, facilitating and supporting Central/State Governments and other agencies in executing programme of entrepreneurship and small business development. NIESBUD overseas maximising benefit and accelerating the process of entrepreneurship development, conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies and organizing those activities that help in developing entrepreneurial culture in the society.

This institute was registered as a Society under the Government of India Societies Act **XXI** of 1860. This institute assumes the task where there is absence of organisations conducting new programmes in the field of EDP. The major activities of the institute includes :

- To evolve effective training strategies and methodology,
- To formulate scientific selection procedures,
- To standardise model syllabus for training various target groups,
- To develop training aids, manuals and other tools,
- To facilitate and support agencies engaged in entrepreneurship development,
- To conduct such programmes which are not undertaken by other agencies,
- To measure their benefits and accelerating the process of entrepreneurial development.
- To conduct workshops, seminars, conferences, etc., for entrepreneurial development programme.
- To facilitate and support Centre and State Governments and other agencies in executing programmes of entrepreneurship and small business development.
- To undertake research and documentation in the field of entrepreneurship and small business development.
- **Entrepreneurship Development Institute of India (EDII):** After the Second World War, concern for economic development became all-pervasive. There was a growing concern for economic development and this strengthened interest in entrepreneurship with primary focus on exploring practical measures to augment the supply of entrepreneurs, i.e. person with competence and aptitude to initiate, nurture and expand industrial enterprises. This resulted in the belief in education and training to inculcate and develop entrepreneurial capabilities in people so that they

could set up their own enterprises. Subsequently programmes directed towards this goal were conceptualised.

The birth of training efforts for the promotion of entrepreneurship in the country was purely an indigenous initiative, i.e. the 'Technician Scheme' launched in the year 1969 by two state-level agencies of Gujarat. The scheme visualised 100% finance without collaterals. A large number of people took advantage of this scheme. The real gain of the scheme was the realisation that there is vast entrepreneurial potential available in the country that could be tapped and developed through appropriate training intervention.

This led Gujarat Industrial Investment Corporation (GIIC), along with other state-level agencies to conceptualise, mount and develop, in 1970, a 3-month long training programme known as Entrepreneurship Development Programme (EDP). However, with the number of programmes increasing, the need for having a separate state-level organisation to look into selection, training and development of first-generation entrepreneurs was strongly felt. Thus, the Gujarat Centre for Entrepreneurship (CED), the first of its kind in the country, came into existence in 1979 with the support of Government of Gujarat and the industrial promotion and assistance agencies in the state.

By this time, the success story of Gujarat experiment spread far and wide and the Ford Foundation encouraged the Gujarat team to test out EDP strategy in a few less developed states like Rajasthan, Assam, etc. Several development agencies in other parts of the country mounted their own EDPs and Gujarat CED provided professional support to a few of these. With increasing number of organisations seeking such support from Gujarat CED, it was felt necessary to set up a National Resource Organisation committed to entrepreneurship education, training and research.

The idea took a concrete shape when the Industrial Development Bank of India, the apex financial institution which had evinced keen interest in the Gujarat experiment joined hands with Industrial Credit and Investment Corporation of India (ICICI), Industrial Finance Corporation of India (IFCI), State Bank of India (SBI) and sponsored this national-level institution. Government of Gujarat also expressed its willingness to support it. Thus, the Entrepreneurship Development Institute of India (EDI) came into existence in the year 1983.

Entrepreneurship Development Institute of India was set up as an autonomous body under the Societies Registration Act on April 20, 1983.

Institute: The Entrepreneurship Development Institute of India (EDI), an autonomous body and not-for-profit institution, set up in 1983, is sponsored by apex financial institutions, namely the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI) and State Bank of India (SBI). The Institute is registered under the Societies Registration Act 1860 and the Public Trust Act 1950. The

Government of Gujarat pledged twenty-three acres of land on which stands the majestic and sprawling EDI campus.

Mission: An acknowledged national resource institution, EDI is committed to entrepreneurship education, training and research. The institute strives to provide innovative training techniques, competent faculty support, consultancy and quality teaching and training material.

EDI has been spearheading entrepreneurship movement throughout the nation with a belief that entrepreneurs need not necessarily be born, but can be developed through well-conceived and well-directed activities.

In consonance with this belief, EDI aims at:

- Creating a multiplier effect on opportunities for self-employment,
- Augmenting the supply of competent entrepreneurs through training,
- Augmenting the supply of entrepreneur trainer-motivators,
- Participating in institution building efforts,
- Inculcating the spirit of Entrepreneurship in youth,
- Promoting micro enterprises at rural level,
- Developing and disseminating new knowledge and insights in entrepreneurial theory and practice through research,
- Facilitating corporate excellence through creating intrapreneurs (entrepreneurial managers),
- Improving managerial capabilities of small scale industries,
- Sensitizing the support system to facilitate potential and existing entrepreneurs establish and manage their enterprises,
- Collaborating with similar organisations in India and other developing countries to accomplish the above objectives.

The institute's basic strategy to realise its mission has been to concentrate on some broad areas to achieve its objectives. The areas so selected have to satisfy the twin criteria of social relevance and the institute's capability.

11.5 NATIONAL ENTREPRENEURSHIP DEVELOPMENT BOARD (NEDB):

The National Entrepreneurship Development Board (NEDB) is the apex body for entrepreneurship development in the country. It devises and recommends to the Government, schemes for promotion of entrepreneurship for encouraging self-employment in small scale industries and small business. The Board also recommends suitable facilities and incentives for entrepreneurship training. The Board may

appoint committees for specific purposes and also invite persons to the meeting of the Board, as and when necessary.

The following are the objectives of NEDB:

- To seek to evolve a ten years perspective plan of resource development and support services, required by micro, tiny, small and medium scale entrepreneurs to lead a national drive by the concerned governmental agencies both Central and State Government, R&D institutions, entrepreneurship promoting institutions and all others interested in supporting the cause of entrepreneurship and entrepreneurial ventures.
- To articulate priorities and design and monitor the implementation of Action Plans thereby helping the area to cope with the business environment of 21st century.
- To identify and remove entry barriers for potential entrepreneurs (first generation and new entrepreneurs).
- To focus on existing entrepreneurs in micro, tiny and small sector and identify and remove constraints to survivals, growth and continuously improve performance.
- To facilitate the consolidation, growth and diversification of existing entrepreneurial venture in all possible ways.
- To support skill upgradation and renewal of learning processes among practising entrepreneurs and managers of micro, tiny, small and medium enterprises.
- To sensitise to support agencies in the area of entrepreneurship about the current requirement of the growth.
- To act as catalyst to institutionalise entrepreneurship development by supporting and strengthening state level institutions for entrepreneurship development as most entrepreneurship related activities take place at the grass root level and removing various constraints to their effective functioning.

Under NEDB, funds are provided for entrepreneurship development, training studies etc. to meet the above mentioned objectives.

Critical Evaluation of EDP's: No doubt that during last few years emphasis has been by Central Government, State Government and private sector on entrepreneurial development programmes. However, number of bogus and forged institutions have come into existence who collect huge amount by way of fees and donations from the unemployed youth. An organised open robbery is being conducted by false entrepreneurship institutions established in cities. Most of such institutions have been established by politicians of repute. The poor and unemployed youth arranges money either by selling his agricultural land or residential house or taking loan at very high rate of interest. After completing so called

entrepreneurship training, when the youth comes in the market he finds that the certificate given to him is of no use and simply a paper which should find its place in the waste paper basket.

Further, there are several shortcomings of EDP's themselves. They may be summarised as under:

- **Problem of Bogus and Forged EDP's Institutions:** Most of the EDP's institutions established in the private sector by powerful politicians are forged. A sort of organised robbery is being conducted against the poor, helpless and unemployed youth.
- **Poor Standard of Training:** EDP means training. It is an important part of EDP. However, training provided to entrepreneurs is of very poor quality. It is based on purely theoretical ground and thus practical part of the training is missing.
- Inadequate Government facilities and incentives including subsidies.
- Lack of proper selection procedure.
- **Lack of proper entrepreneurial spirit:** Entrepreneurs have a wrong notion that mere joining EDP will make them successful entrepreneurs. They have a wrong impression that mere joining an EDP means automatic grant of industrial license, assured financial assistance, raw-materials quotas and other facilities and incentives including subsidies.
- Emphasis on number of entrepreneurs trained rather than their quality. This number approach is responsible for poor quality of EDP's.
- Lack of proper coordination in the entrepreneurial development programmes organised by the Central Government, State Government and Private Enterprises.
- Overemphasis to develop entrepreneurship in industry alone.
- Non-qualified and incompetent training motivators are also responsible for non-effective EDP's.
- Defective organisational policies and structures.

Suggestions for making EDP more effective:

- The following are the suggestions which can make the EDP programme in India more useful and effective:
- **Strict Action against Bogus and Forged EDP's Institutions:** Government should take a stern action, both civil and criminal, against bogus and forged EDP institutions irrespective of their political affiliations.

- **Emphasis on Training Programme:** The training programme of entrepreneurs should be varied and comprehensive. It should be more practical and less theoretical. The curriculum should be framed by a team of experts. As far as possible, the programme of training the entrepreneurs should be full time one. The selection strategy should be such in which only those candidates should be selected for training who are likely to be successful in setting up and successfully running their own enterprise in the shortest time with minimum resources at the initial stages. Various variables like caste, family background, age, education, size and type of family, willingness to take risk, personal efficacy, aspiration etc. should be considered while selecting the entrepreneur.
- **Support of Financial Institutions:** Financial institutions should provide adequate and timely credit and technical assistance, specially to small and medium sized enterprises at reasonable terms and conditions. It will go a long way in inculcating and sustaining entrepreneurial spirit in the new emerging class of entrepreneurs.
- **Emphasis on Research Development:** Institutions providing EDP's should lay emphasis on research and development. The indigenous and obsolete techniques should be replaced by ultra- modern techniques. If needed, we should not hesitate in taking assistance from foreign experts. Foreign collaboration should also be taken as and when needed.
- **Training in Motivation Development:** Motivation development programme creates self-confidence and self- awareness among the participants. Without achieving motivation training, EDP become incomplete. Under motivation development training, entrepreneurs learn to strive for excellence, to take calculated risk, to use feedback for improvement etc.
- **Development of Industrial Culture:** All possible efforts should be made effectively and seriously for the development of an industrial culture. It should be realised that the central core of entrepreneurship is the motive force since an appropriate, entrepreneurship implies positive action and initiative. Motivated individuals with a combination of abilities and attributes can pursue their goal with enthusiasm. One can easily give examples of men like J.N. Tata who established their enterprises against heavy odds in the country under British rule. Without motivation, an individual cannot become a successful entrepreneur even though he may have access to finance.
- **Management Education:** There is need to develop management education and industrial training. In modern times, management education is being viewed as an effective supplement to the development of entrepreneurship since entrepreneurial decisions have to be effectively supported by managerial decisions. Quite often, the entrepreneur functions a manager especially in small-scale industries where the entrepreneur is his own technician and manager. This fact justifies the route of formal education and necessitates the establishment of business schools and management institutes in the country, where relevant courses may be

introduced. Happily, some such institutions have come up but they should further be strengthened and developed into first-class institutions comparable with their counterparts in developed countries.

- **Development of Backwardness:** The development of backward regions/areas constitute a new challenge. Programmes for their development be drawn up and should be effectively implemented. Such programmes await new entrepreneurs whose technical expertise and managerial competence would bring about the desired development and fulfill social needs.
- **Searching of Talent:** Adequate measures are a must for mobilizing and fostering entrepreneurial talent in the country. In this context, it should be realised that entrepreneurs are not the gift of a particular class. For instance, in Japan, innovators came from the underprivileged classes as the affluent classes had hardly any incentive to innovate. “Innovating entrepreneurs have frequently come from those classes of people normally barred from advancement to status-bearing positions.”
- **State Help:** Economic administration by the State should be improved and made more effective so that objectives of economic policies may be fully achieved in the overall interest of the country’s economy. Better economic administration would go a long way in ensuring and increasing entrepreneurship. Monopoly benefits to a few big entrepreneurs is an evil and must be checked. The general policy of encouraging the small entrepreneur will go a long way in activating and broadening the leadership potential. Improvement in business climate by the state through its well-designed economic policies, be it fiscal, commercial, industrial or agricultural will benefit the entrepreneurs in a changing technological society and thus facilitate healthy development of entrepreneurship.

11.6 QUESTIONS

1. Explain the role and functions of DICs.
2. What is meant by EDP’s? Discuss its role.
3. Discuss the relevance and achievements of EDP’s.
4. State and explain the objectives of EDP’s.
5. Discuss the role of Government in organising EDP’s.
6. What are the various institutions established by the Government for the development of the EDP’s in India? Explain.
7. What is EDP? Give a critical evaluation of EDP’s.
8. What is EDP. Give your suggestions for making EDP more effective.



TRAINING AND DEVELOPMENT

Unit Structure

12.1 Introduction

12.2 Objectives of Training

12.3 Questions

12.1 INTRODUCTION

Training is provided to small-scale industry entrepreneurs by several agencies with a view to upgrade the skills of workers, increase the productivity, and improve the quality of their products and services. Technical assistance is provided to an entrepreneur through the Central Small Industries Organisation (CSIO) for preparing a scheme for establishment of his industry. The Central Small Industries Organisation has prepared more than one thousand schemes containing technical and general information covering a wide variety of items. Technical Advisory Services is provided through the Small Industries Service Institute (SISI). Each Small Industries Service Institute is equipped with up-to-date workshops and laboratories in various trades for actual demonstration. The Industrial Extension Centres have also been set up to provide common facility services.

12.2 OBJECTIVES OF TRAINING

The following are the objectives of training:

- The chief aim of training the workers is to equip them with improved management and technical know-how.
- By improving the skill of the workers, training brings about an improvement of the quality and quantity of output.
- The training programme is so devised that it informs the staff about the various assistance available from government organisations.
- The materials and equipment are most economically used by the trained workers thereby reducing the cost of production.
- The training programme is directed to meet the requirements to individuals with different background and doing different jobs.
- The management can concentrate on planning after having provided adequate training to staff.

- The trained workers are likely to feel that they are being cared for and it helps to improve the image of the employer.

In India, necessary training in small scale industry sector is provided by the Small Scale Industries Development Organisation (SIDO), Small Industries Service Institutes (SSIs), National Small Industries Corporation (NSIC), Small Industries Extension Training Institutes (SIETIs) and Entrepreneurship Development Institute of India (EDII). Institute of Rural Management and Administration

(IRMA) also provides training to young graduates to set up their own industries.

The following institutions have been conducting training and development programmes for small scale industry sector.

1. Small Industries Development Organisations

- **National Small Industries Corporation (NSIC) :**
- **Small Industries Extension Training Institute (SIETI) :**
- **Entrepreneurship Development Institute of India (EDII) :**
- **Institute of Rural Management and Administration (IRMA) :**
- **Small Industries Development Organisations:** The Small Scale Industries Development Organisation conducts regular and ad-hoc training courses for small scale industry entrepreneurs who have not undergone a formal training course. The regular training includes shop practice courses, trade oriented courses, process oriented courses, product oriented courses and blue print reading courses.
- **Shop Practice Courses:** These courses include machine shop practice, tool room practice, foundry techniques, blacksmith, forging and electrical shop practice.
- **Product-Oriented Courses:** The product-oriented course is intended to provide training in such trades as glassbead, footwear, lens grinding, painting and varnish manufacturing.
- **Trade Oriented Courses:** This category of course aims at equipping the semi skilled workmen with the advanced knowledge in various trades like tool making, fitting, carpentry, sheet metal work and machine work.
- **Blue-Print Reading Course:** This course is intended to impart training in reading the blue-prints.

The above courses are designed for those workers who have got necessary experience in the respective fields. Besides these courses, the organisation also conducts regular full time course in (a) advanced footwear technology and designing at the Central Footwear Training Centres in Agra and Chennai, and in (b) the manufacture of industrial and clinical

thermometers and glass blown apparatus in Solan. The organisation also conducts courses in the manufacture of hand tools, machine tools and electric motors at Thiruvalla. A fixed monthly stipend is admissible to the trainee in these courses. The ad-hoc courses are of short duration extending over one to three months.

The Small Scale Industries Development Organisation (SSIDO) has been sending technicians engaged in small-scale industries and officers of the SSIDO to foreign countries for advanced practical training under such training schemes as Ford Foundation and Colombo Plan. SSIDO also sponsors its officials for training at such reputed professional institutions as SIETI, Hyderabad NITIE, Mumbai; H.M.T. Ajmer; IIM, Ahmedabad; BHEL, Tiru-Chirapalli; HAL, Bangalore; BARC, Mumbai; NPC, Mumbai; ISI, New Delhi, etc.

SIDO under its 'Entrepreneurial Development Programme' carries out planning, organising and co-ordinating the entrepreneurial activities in small scale industries sector. It maintains a close liaison with the State Directorate of Industries, District Industries Centres and State Financial Corporations for effective development and implementation of entrepreneurial programmes. The 'Entrepreneurial Development Programme' is designed to motivate the prospective entrepreneurs among women, educated unemployed, rural artisans and the weaker section of the society.

- **Small Industries Service Institutes (SISIs):** Small Industries Service Institutes conduct a number of management development courses. The SISIs design training programmes for owner managers of small-scale industries. The Institutes conduct the following management development courses

- **Industrial Management Appreciation Course:** This training course broadly covers the subjects of production management, cost accounting, cost analysis and budgetary control, distribution management, advertising and publicity, personnel management and labour laws and commercial laws. This introductory course is useful for all level of managerial personnel who are familiar with the work of industrial management. The course is conducted in the evening for a period of 2 1/2 months, supported by plant visits. The admission to this course is open to the small industrialists and their supervisory personnel.

- **Specialised Courses:** The Organisation also imparts training in specialised courses, which are held subject-wise. The specialised management courses broadly cover the subjects of financial management, production management, marketing management and cost accountancy. These courses provide advanced training to the small scale industry entrepreneurs and their supervisory staff who have already undergone the preliminary appreciation courses of industrial management. These courses are conducted in the evenings and are spread over a period of six weeks.

- **Special Ad-hoc Courses:** These are short courses designed on specific tools and techniques of management science like cost control, production planning and control, product development, plant maintenance, purchase management motivation techniques, cost estimating and pricing, sales management and sales promotion, managerial skills for technical personnel, managerial effectiveness, material management, organisation and technique of training, quality control and marketing research.
- **National Small Industries Corporation (NSIC):** The NSIC provides training to the entrepreneurs by conducting the following programmes:
 - **Apprenticeship Training:** Under National Apprenticeship Act, training in various trades such as turning, moulding, welding, grinding, fitting, tool making, and instrument making is imparted which runs over a period of 36 months.
 - **Workmen Training:** The workmen training programme is designed for small scale industry entrepreneurs. The duration of this training is of 12 months.
 - **Engineering Graduate Training:** The engineering graduate training scheme is designed to impart training to engineering graduates associated with small-scale industries. This training course extends over a period of 24 months.
 - **Supervisory Training:** The supervisory staff of the small-scale industries and the diploma holder of apprenticeship are granted admission for this training which covers a period of 24 months.
 - **Small Industries Extension Training Institute (SIETI):** The Small Industries Extension Training Institute provides training for small scale industries in industrial management and area development. The latter course is primarily meant for district industry officers and project officers for rural areas while the former is meant to equip the extension officers, owners and managers of small enterprises. These courses are being conducted in production management, financial management, cost accounting and marketing management. The Institute at present offers the following training courses:
 - **Industrial Management Courses:** This course is designed to equip the participants with skills in modern management techniques. The trainees are taken to factory visits which give them a chance to see the process of manufacture. Thus there is a mixture of theoretical and practical training. This course runs over a period of twelve weeks.
 - **Area Development Course:** Area development course is a diagnostic type of implant study in the selected small units of the selected districts. This course is designed to make an assessment of industrial potential in the selected districts. This course is designed for District Industries Officers, Assistant Directors of Industries and other officials of the Directorate of Industries. The course is of 12 weeks duration.

- **Specialised Courses:** The Institute conducts various specialised and prototype courses in certain selected management subjects. It conducts specialised courses in subjects like entrepreneurial motivation, management accounting, production management, marketing management, export management, statistical quality control, organisational behaviour and material management.

SIET Institute organises training programme, seminars and workshops for the staff of the District Industries Centres and National Mineral Development Corporation Ltd. It has introduced such new training programmes as Artisan Development, Strategy for Ancillary Development, General Management programme for Tiny Sector Units, Financial Statement Analysis, Economic Investigation Techniques for Small Industry Development, and planning for Infrastructure for Industrial Development. The Institute also conducts Entrepreneurial Motivation Development Programmes.

- **Entrepreneurship Development Institute of India (EDII):** Entrepreneurship Development Institute of India (EDII) was set up in April 1983 as the principal agency for entrepreneurship development, for training of trainers and motivators, conducting model training programmes and undertaking research in the field of entrepreneurship development. The Institute, jointly sponsored by IDBI, IFCI, ICICI, State Bank of India (SBI) and Government of Gujarat is functioning under the overall guidance and supervision of a Governing Body with IDBI Chairman as its ex-officio president. The Governing Body is responsible for policy formulation of the EDII. The Institute has so far conducted four model demonstration and special training programmes in Trivandrum (Kerala), Port Blair (Andaman & Nicobar) and Panaji (Goa). A general EDP and a polytechnic teachers programme at Technical Teachers Training Institute (TTTI), Chandigarh, one Self-Employment programme and one Science and Technology EDP at Panaji, Goa, were also conducted. EDII, though in its infancy has played a vital role in promoting entrepreneurship in this country.

- **Institute of Rural Management and Administration (IRMA):** Institute of Rural Management and Administration (IRMA) provides training in rural management. It offers a two-years professional course leading to the award of Post-Graduate Diploma in Rural Management. The course consists of class-room sessions, seminars and field work. The course is designed to develop a sense of service and an attitude of commitment among the young Graduates to fill up the gap of rural managers to manager the rural economy. A proper management of rural economy will help positively in promoting entrepreneurship in rural India.

Management and Technical Services: Management and technical services are rendered through the agency of Small Industries Services Institutes and Extension Centres of the Central Small Industries Organisation. A number of technical officers specialised in different trades are stationed in the Small Industries Service Institutes and Extension Centres, while the officers of the Central Office are engaged mainly in co-

ordinating the programme in different lines. The officers on the field are engaged in what is called “Extension Service”. The problems of the small-scale industries are studied by those officers with a view to provide solutions. Keeping in view the fact that the main aims are maximum productivity and improvement in quality, management and technical consultancy services are provided to the small-scale industries.

- **Management Consultancy Services:** Small scale industry entrepreneurs are provided with the management consultancy service which range from ad hoc advice on specific problems posed by the small industrialists upto complete integrated plant studies covering various aspects of finance, production and sales. The management consultancy service under the new pattern generally assumes two forms namely problem oriented consultancy and integrated plant studies.

Problems Oriented Consultancy: Consultancy services on the specific problems are provided to the small industry entrepreneurs in the following ways:

- Management specialists visit the unit and render on the spot advice on particular management problems relating to product, finance, sales etc.
- The small industrialists visit the institutes for seeking advice on matters like setting up of new units, possibilities of expansion of existing units, commercial and labour laws, finance, specific financial or sales problems etc.
- Management consultancy work offered by the Central Small Industries Organisation is of decisive importance to small scale industrialists, particularly when they are facing challenging situations in terms of availability of raw materials and other basic resources.

The Central Small Scale Industries Organisation has consultants who are well qualified and experienced in their trades. Through training repeated use of management techniques under the various situations, the consultant makes available to the industrialists, free of cost, new ideas and concepts. He is well informed about the latest developments in the field of his specialisation and thus is able to make an objective and unbiased analysis of the situation.

- **Technical Consultancy Services:** Technical consultancy service is provided to the small-scale industries with a view to extend knowledge of better managerial and technical methods to be employed by small scale industry entrepreneurs. Small Industries Service Institutions and Extension Centres of the Central Small Industries Organisation render technical advice and demonstrate the use of modern technical processes, prepare model schemes, designs, drawing and technical bulletins, render advice on proper methods of business management including marketing, conduct of technical and management courses and to act as information centre on technical and economic matters.

- **Mobile Demonstration Workshop:** Mobile workshops attached to the SISIs which are well equipped with the modern machines and tools operate in rural areas for providing technical knowledge to village artisans. The artisans are given training in the use of various trades such as carpentry, leather, footwear, gloves, black smithy, electroplating, glass industry and general engineering etc. The staff attached to the work-shops give information about the specifications, prices and the sources of availability of machines.
- **Design and Drawings:** Small-scale industries often manufacture items which are just imitations of imported products, without giving much thought about their suitability to Indian tastes. The Industrial Design Cell in Small Industries Service Institutes, New Delhi studies the designs from the view point of consumer demand, functional values and manufacturing capacity of the producer. Besides product designs, the small-scale industries are provided with the designs for machine tools, dies, etc. The cell specialises in cutlery leather goods and toys, ceramic products, furniture, domestic electrical appliance etc. Moreover, blueprints and layout plans for the workshops are also prepared to ensure proper planning of a new workshop.
- **Technical Literature:** Small Industries Service Institutes prepare designs and drawings of various types of machinery, equipment, tools, dies, fixtures and plant layouts. The institutes also prepare technical schemes for the benefit of small scale industry entrepreneurs.
- **Integrated Plant Study:** Under this programme where the consultancy work is of more intensive nature, a particular small unit is selected for detailed techno-managerial analysis of the problem of the firm. Such studies of selected units are important particularly when the units are facing challenging situations in terms of availability of raw materials, product competition and financial needs. A group of officers specialising in finance, economies of production visit the unit for a thorough analysis of the economies of production visit the unit for a thorough analysis of the working of the unit and point out weaker areas of performance. They prepare a report stating their suggestions for submission to the management. The officers make their services available to the unit to implement these suggestions if required.

It is nevertheless true, that small scale industries are provided with extensive management and technical consultancy services and yet these units are at a disadvantages compared to large scale industries. Small units have general inherent limitations in the form of scarce capital, and lack of suitable equipments. It is therefore, unfair to expect small scale industries to work in the lines of innovations and inventions. It is this sector where the state of research and development is miserably poor.

The following suggestions may be offered to strengthen technical training capabilities in small scale industry sector.

- **Ancillary Units:** It is pointed out that the large scale sector is well-equipped with sophisticated technical know-how and under the arrangements of ancillary units, the required technical know-how can be extended to smaller units as well. The posting of officers from the main unit to the ancillary can also be extended to small units. Research and Development facilities should include provision for products and processes of the small units. The Government of India has launched a programme for modernisation of 40,000 small scale units falling under 40 selected industries. In Maharashtra, the Small Industries Service Institute at Bombay is implementing the modernisation programme.
- **Information Clinic:** It is strongly felt that some trade blocks should come forward and establish information clinics equipped with consulting engineers and scientists. Whenever small units are faced with complex problems, the clinics should come forward to help and solve the problems. It is important because small industries cannot take the services of the professionals as they are very expensive. The Government of India has established three Prototype Development and Training Centres at Okhla, New Delhi, Rajkot. Howrah and a fourth one is fast coming up at Madras. It is anticipated that those would make available variable technical base.
- **Liaison Centres:** In all engineering colleges and institutes of technology, liaison centres should be created so that scientists and engineers can pay regular visits to the small scale industries. Once level of technical know-how in small scale industries is increased, it would help to absorb scientists and engineers.
- **Research and Development:** It appears almost impossible for the small-scale units to establish. Research and Development Department of their own. The Government can come to the rescue of the small units by organising Cooperative Research Association. It should give services relating to quantity control testing facilities, and certification marks.

Objectives and methods of employee training:

In our country the small scale industries suffer mainly due to non-availability of technical knowledge. The use of obsolete technology, poor quality of tools and techniques increased production cost. In order to bridge this gap SIDO, SISIs, NSIC, SIETIs, EDII, IRMA etc. provide required training to the staff of small scale industries. Training aims at increasing the aptitudes, skills and abilities of the workers to perform specific jobs. When the workers are not properly trained, level of output and quality of work may suffer. The untrained workers may feel dissatisfied towards the work and their morale is likely to suffer.

Regular and ad-hoc training courses in various technical areas are being conducted by the Small Industries Service Institutes and Extension-Centres for artisans, both skilled and semi-skilled and for supervisors to improve their existing skills, broaden areas of competence and meet the specific requirements of the small industries.

Broadly, the technical courses available are as follows:

- **Shop Practice Courses:** These courses are meant for senior artisans to broaden their fields of technical competence. It helps to understand supervisory responsibility covering shop operations. These courses are available in machine shop practice, tool room practice, forging shop practice, electrical shop practice and carpentry shop practice.
- **Process Oriented Courses:** These courses are meant for persons who are already familiar with production process in some form. Training is imparted in heat treatment (3 to 6 months), electric and gas welding (3 months); leather finishing (3 months) electroplating (3 months); fruit and vegetable preservation (3 months) etc.
- **Trade Oriented Courses:** Trade oriented courses are meant primarily to equip semi-skilled workmen with advanced knowledge of a particular trade e.g. filters, pattern makers, carpenters, sheet metal workers etc.
- **Product Oriented Courses:** These courses are meant for persons having basic knowledge of manufacturing process. These courses are in footwears and allied products (6 months); paints and varnish manufacture (3 months); and glass head manufacture (5 months).
- **Adhoc Technical Courses:** These courses range from one to three months and are organised locally to meet the requirement of small industrial units.

Regular Training: The following two centres conduct regular full time courses:

- **Central Footwear Training Centre, Chennai and Agra:** The Central Footwear Training Centres at Chennai and Agra conduct an advance course in footwear technology. An individual trainee is given monthly stipend. In addition, operators courses are also conducted to specialise the trainees in various process of footwear manufacturing.
- **Extension Centre, Solan:** The centre conducts a two year training course in manufacture of clinical and industrial thermometers. Training is also imparted to manufacture specific gas apparatus. Each trainee is paid a monthly stipend.

Training Facilities for Managerial Personnel: In order to provide training to managerial personnel, a regular courses in Business Management originally started at the four Small Industries Service Institutes at Mumbai, Kolkata, Chennai and New Delhi in 1956. Similar courses have now been started at all the Institutes and at certain branch institutes. The subjects covered in these courses are Marketing, Advertising, Banking and Credit, Industrial Legislation and other general subjects connected with the organisation and management of small scale industries.

In addition, short-term courses of about 5 weeks duration in Business Management have also been started at several places like Kanpur, Meerut, Jaipur, Ambala, Rajkot, Trichur, Trivendrum, Coimbatore, Bhavanagar, Madurai, Surat, Vijaywada, Ernakulam and many other centres.

Training Facilities for Artisans: Training is provided to artisans, both skilled and semi-skilled in order to improve their existing skill through the use of improved tools and techniques of production. Training courses for various trades have been organised at the various centres. Training courses are also conducted in the manufacture of Thermometers at Ambala; Footwear at Chennai and Cane and Bamboo making, Tailoring and Cutting, Carpentry and Sheet Metal at New Delhi.

Training is also provided to the artisans through the Mobile Demonstration Workshops operated by the Small Industries Service Institutes (SISIs) over the country. The vans are fitted with modern machinery, tools and equipment and are equipped for the trade of blacksmith, carpentry, shoe-making, leather goods, sheet-metal products, glass industry, pottery-ware, general engineering, repair of oil engines and pumps, electroplating, electric wiring etc.

12.3 QUESTIONS

1. What are the institutions which offer training to small scale industries?
2. What are the training facilities available to small scale industry entrepreneurs? Suggest measures to improve technical training capabilities in small scale industry sector.
3. What are the objectives and methods of employee training?
4. Explain the regular and ad-hoc training courses in various technical areas conducted by Small Industries Service Institutions.



PROBLEMS AND DIFFICULTIES OF ENTREPRENEUR

Unit Structure

13 .1 Introduction

13.2 Problem of Finance

13.3 Measures Adopted to Solve Marketing Problems

13.4 Remedial Measures to sole problems

13.5 Economic-Barriers

13.1 INTRODUCTION

The small scale units in our country lack the entrepreneurial ability to develop initiative and undertake risk, in the unexplored industrial fields. The industrialist is more a trader than an entrepreneur. Many jump into the fray because they are lured by the incentives and concessions given to the small scale units. Lack of management is very prominent and often leads the unit to ruins. As the capital invested by the owner is very low, he does not have a stake in the business, often he does not take the business as seriously as he should. Family feuds often bring down managerial efficiency.

Small units suffer from inadequate work space, poor lighting, bad ventilation, absence of proper sanitation facilities and safety measures. These shortcomings have endangered the health of their workmen and affected productivity. Many units adopt primitive methods of production. They suffer from constant shortage of finance. Wage rates are low and working conditions are poor; so they cannot attract skilled labour.

Lack of standardisation, quality consciousness, inadequate knowledge of marketing, techniques, incomplete information about the market and lack of the resources to advertise the product to create a network for distribution compound the difficulties.

The main problems and difficulties faced by Entrepreneur:

13.2 PROBLEM OF FINANCE:

Inadequate finance is the most important problem faced by the entrepreneur. Specialised institutions have been set up to provide finance to the large scale industries, very little work has been done to establish institutions to provide finance to small scale industries. The credit worthiness of small borrowers is generally weak. Small entrepreneurs have to depend on money lenders who charge a very high rate of interest.

Whatever undeveloped institutional agencies are available for financing small enterprises, they are not of much help for the small entrepreneurs.

- **Problem of Raw Materials:** Small business entrepreneur faces problems in obtaining essential raw materials. They do not get regular supply of essential raw materials.

Large scale industries also have the advantages of bulk purchases of raw materials which reduce the cost of raw materials considerably.

- **Problem of Power:** Though there is general shortage of power in the country, its impact is decidedly fatal on small producers. Power supply is not short every where. Wherever power is available, its supply is limited to a few hours in a day. The small industries cannot afford to go in for alternatives like installing own thermal units or diesel generator sets because of heavy costs involved in them.

- **Problem of Marketing:** Small firms are at a disadvantage in the marketing of their products. In many cases, small firms tend to be in a weak spot in terms of bargaining. They are often dependent on some middleman for the distribution of the products, the middlemen exploit the units to the maximum. They have difficulties in advertising, distributing samples or displaying their products. Building up a national or international clientele is a distant dream for most of the units. They may have sales staff, but are unable to utilise them fully. The overhead costs then kill the units. Market research is rarely done and the entrepreneur is unaware of the changes taking place in the market.

Most of the small industries are forced to restrict their sales to the local markets. For want of adequate co-operative and other marketing facilities, the small producers are compelled to sell off their goods in the local market at competitive price.

- **Competition with Large-Scale Industries:** Small-scale industries cannot compete with large-scale industries. Large scale industries have the advantages of economies of scale, use of modern techniques of production, quality control, advertising and publicity, etc; these advantages are not available to the small-scale industries. The small scale producers cannot therefore, stand up against them in the market.

- **Factory Site:** The most common problem faced by small industry entrepreneur is the problem of finding suitable site to locate the factory. Factory site should have facilities for water, power, transport connections etc. Acquisition of land, buildings and other facilities by a small entrepreneur not only require lot of time but also eat away a considerable portion of his meager resources.

- **Other Difficulties:** Small-scale industries also face the problem of local and other taxes, talented people to work, problem of export promotion, lack of transport facilities, lack of technical know how.

Marketing Problems: Small scale industry products are being marketed both in the domestic market and international market.

We shall discuss marketing problems of small scale industries entrepreneur as follows:

- **Management:** Management is the basic input required for making the unit successful. Quite often it happens that there is a likelihood of disputes among the partners. A complex business situation requires the dynamic leadership coupled with sharp business acumen on the part of the leader of the enterprise. In the case of Small Scale Industries the strength of dynamic leadership appears to be very low in many cases. The owner/manager fails to analyse the strength and weakness of his organisation. The result is that he/she is not well prepared to face the problem. Besides, the unsuccessful entrepreneur tends to lose confidence in the business resulting low morale while dealing with the employees in the organisation.
- **Production:** Another marketing problem of small scale industries entrepreneur is the inferior quality of production, delayed delivery and poor after sales service. The other reasons of ineffective marketing sometimes happen to be lack of sound production planning and control system, technological obsolescence, scarcity of raw materials, improper lay out, high cost of inputs, Government policies, lack of R & D set up etc. Because of their smallness and weak financial position small units are forced to buy on credit from middlemen who keep higher profit margins. The other alternative is to go in for cheap and inferior raw materials which affects quality of the finished product. Besides, irregular Government supplies of raw materials will affect their production programmes. Therefore some times they have to buy from the open market at prohibitive prices, which upset all their cost calculations.
- **Inadequate Funds:** One of the persistent marketing problems of small business entrepreneur is inadequate amount of funds available with the organisation. The financial problems sometimes arise accidentally or sometimes deliberately created by the entrepreneur himself, to syphon off some of the funds from one unit to another unit in which he has vested interest, making the former sick. But in the case of genuine financial problems sometimes the entrepreneur confronted with high interest burden, on account of high debt-equity ratio, payable to the financial institutions/banks. Sometimes at the project execution stage unusual delay is caused due to inadequate funds for acquisition of fixed assets and so non. Perhaps all these problems do arise due to lack of proper financial planing and management.
- **Poor Managerial Skill:** The most common marketing problem of a small scale industry is the lack of adequate managerial talents. It is because most of the small units are set by sole proprietors who have poor managerial skill. Hence these units are highly personal in nature. Their success or failure to a large extent depends upon the intuition of owners/managers rather than on their skill and judgement. Gunnar Myrdal

in his 'Asian Drama' writes that Asian Societies lack adequate men with right attitude. Indian entrepreneurs at urban and metropolitan centres with guts, skill and ambition do exist; but qualities like motivation, sense of commitment, business morality are invariably absent in small scale industry entrepreneurs.

- **Faulty Planning:** Faulty product planning, poor infrastructure and ineffective distribution channels are yet other marketing problems. In a way Government is mainly responsible for this situation. The Government in an attempt to reduce a regional imbalances and to improve backward areas, has extended a host of concessions. Most of projects in these areas are taken up by incompetent, unemployed graduates, who do not possess any knowledge of industry or business. The Government officials are more concerned with starting new units and achieving targets. Quite often many persons enter the industry having been motivated by an intensive campaign by the Government institutions promising them every thing for almost nothing.

Marketing channels are found weak in small business entrepreneurship. The poor quality control system, uneconomic pricing, inadequate facilities of market research, inadequate funds to launch heavy advertisement campaigns, quite often results in a poor market share. They also suffer from the problems of branding and packaging.

13.3 MEASURES ADOPTED TO SOLVE MARKETING PROBLEMS:

The following measures are adopted to tackle marketing problem of business entrepreneurship.

- **Finance:** The most important problem faced by small-scale industries is that of inadequate financial resources to extend credit to their valued customers. Specialised institutions have been set up to provide finance to small scale industries. The specialised institutions for industrial finance have not gained much popularity because of poor response from the entrepreneurs. They feel shy in approaching banks due to their poor credit worthiness. Banks have been directed to provide 40% of available funds to such small scale industries. Small scale industry owner must be made known of this facility. This will strengthen their marketing network.
- **Power:** Though there is general shortage of power in the country, its impact is decidedly fatal on small producers. Power supply is not always, every where available, it is limited to a few hours in a day. The small industries cannot afford to go in for alternatives like installing own thermal units or diesel generator sets because of heavy costs involved in them. Government has set up industrial estate which have all developed infrastructure including assured power supply.
- **Government Support:** A change in attitude is required from the Government to solve the problems of small scale industries. It should assess the project objectively before it is sanctioned. Besides, while

sanctioning a unit, the qualities in the entrepreneurs like risk taking, organising ability, competence, integrity, honesty, creativity and so on must be X-rayed.

- **Training:** A true ‘entrepreneur’ is one who germinates the concept, takes initiatives, seizes the opportunity, bears the risks promotes the organisation and manages it inspite of odds to achieve the set goals. In fact he acts as a ‘spark plug’ to transform the economic scene and bring a new dynamism into it. We have to prevent sickness in units, proper guidance, training, and consultancy services should be made available to the entrepreneurs. Government can think of tackling this problem by establishing specialised agency or through existing agencies like DIC’s etc. to conduct Entrepreneurial Development Programmes for imparting management skills and make them aware of management techniques.
- **Promotional Agencies:** The District Industries Centre concept which has been adopted to act as a single window agency to co ordinate all the activities for the promotion of small scale units is not able to achieve the objective. We often find that the entrepreneur is asked to move to various offices like banks, financial institutions, municipal corporations, electricity departments, tax departments etc. We have found that much of the energy and valuable time of the entrepreneur is being lost in running to these offices to fulfill the requirements. Besides, there is no co-ordination in the activities. Therefore we feel that if at all we have to solve marketing problems of Small Units there should be co-ordinated efforts of all agencies concerned with the promotion of small scale units.
- **Incentives:** Heavy cash outlay by way of interest payments due to high debt equity ratio is another severe problem. The interest burden starts pressing the backbone of the unit right from the day of sanction of loan. Thus any delay in commercial production, will have an adverse impact on the finance of the unit. Generally a unit takes at least two years to establish itself in the market. During this time the interest burden will be so heavy that even profit making units in future years also face the brunt. Therefore, we suggest that a portion of long term debt provided by financial institution be converted into equity in a phased manner.
- **Government Orders:** Government agencies are the largest buyer of small scale industry products. In order to secure orders for the supplies to the Government, natural small industries corporation has been set up.

13.4 REMEDIAL MEASURES TO SOLE PROBLEMS:

The old saying “Prevention is better than cure” cannot be ignored in the context of small units. The problems of small scale industry entrepreneur are varied and should be tackled effectively, by adopting following remedial measures.

- **Government Attitude:** A change in attitude is required of the Government to solve the problems of small scale industries. It should assess the project objectively before it is sanctioned. While sanctioning a

unit, the qualities in the entrepreneurs like risk taking, organising ability, competence, integrity, honesty, creativity and so on must be X-rayed.

- **Entrepreneur's Taking:** A true 'entrepreneur' is one who germinates the concept, takes initiatives, seizes the opportunity, bears the risks, promotes the organisation and manages it inspite of odds to achieve the set goals. We have to prevent sickness, provide guidance, training, and consultancy services to the entrepreneurs. Government can think of tackling this problem by establishing specialised agency or through existing agencies like DIC's etc. through Entrepreneurial Development Programmes.

- **Promotional Agencies:** The District Industries Centre is establish to act as a single window agency which co-ordinates all the activities for the promotion of small scale units. We often find that the entrepreneur is asked to move to various offices like banks, financial institutions, municipal corporations, electricity departments, tax departments etc. We have found that much of the energy and valuable time of the entrepreneur is being lost in running to these offices to fulfill the requirements. Therefore we feel that if at all we have to alleviate problems of Small Units there should be co-ordinated efforts of all agencies concerned with the promotion of small scale units.

- **Marketing:** The marketing problems of small scale industries range from pricing to packing. Any amount of increase in productivity does not help unless there is a sale of the output. We suggest that consortium approach will take care of such problems.

Further, periodic fairs and exhibitions may be of help at the district level.

- **Financial and Fiscal Incentives:** Government provides financial and fiscal incentives to SSI. There are several tax benefits to SSIs. The State has also taken up steps to provide technical assistance, physical facilities financial assistance, provision of raw materials, marketing assistance and fiscal incentives to the small industries services Institutions provide managerial and technical expertise to small industries. Through the establishment of industrial estates, the small industries are being provided infrastructural facilities such as water, power transportation etc. and other essential inputs. The small-scale sector is now considered as priority sector and credit facilities such as water, power, transportation etc. and other credit facilities are being made available to it at concessional rates. The public sector banks provide finances to artisans under the DRT Scheme. The Government itself is one of the largest purchaser of the products of small enterprises. The Government is also providing fiscal incentives to small producers in the form of tax holiday, investment allowance, capital subsidy, excise duty exemption.

Major environmental problems faced by small scale entrepreneurs in India.

The term 'environment' refers to the situation within which business enterprises have to operate. A business enterprise does not exist in vacuum and, therefore, is affected by surrounding environment as created by political, economical and social forces. Planning of entrepreneurial activities is essentially important because of the environment under which entrepreneurship has to be developed is constantly changing. A business unit may be affected by political, economic or social forces. The forces within which entrepreneurship have to operate are termed as entrepreneurial environment.

There are several environmental problems face by small scale industries sector due to globalisation. Globalisation, provides expanded opportunities in different parts of the world apart from the domestic market. The process, while integrating India with the world, has exposed it to rigorous competition from other countries. If any country is to survive under globalisation, its economy should have the world-class quality and competitive price for its products particularly those of industries. Thus, a transition from an era of protection to an era of globalisation has posed threats and also challenges for the Small Scale Sector. In competitive environment threat is taken as a challenge and it must be converted into an opportunity for sustained development making major contribution to domestic output, employment, better distribution of income and an even distribution of industries in the urban and the rural areas.

Notwithstanding the threat of globalisation, SSI sector has more than fulfilled the targets set for exports. It is a matter of joy that it has even exceeded the target set for it. Obviously, this country has to sustain the Small Scale sector if it were to maintain the higher tempo of industrialisation and if the country sets a growth rate of 11 per cent for the industrial sector aiming at a GDP growth of 8 per cent, Small Scale Industry sector will have to grow at more than 12 per cent. This can provide grater impetus to employment generation and also for reducing regional disparities, which are now causing considerable social tension.

Reservation Policy: It should be noted that in the development of SSI sector in India reservation of items for production in the Small Scale sector became an important component of SSI Policy. The principle "What can be viably produced in the SSI sector should be so produced". The main argument of continuation of reservation policy is that it serves the desirable objective of increased production, export and employment generation. Available data show that 28 per cent of the total production originated from the reserved items. Twenty-four per cent of the SSI units manufactured reserved items. Eleven per cent of the items manufactured in SSI sector are reserved. It may also be noted that 60 per cent of the exports of SSI sector comes from the reserved items.

In the earlier years, the setting up of a separate Bank for Small Scale industries was delayed. No doubt, there exists a National Small Scale

Industries Corporation to provide machinery on hire purchase basis to the Small Scale entrepreneurs. The commercial Banks were reluctant to extend any credit to Small Scale sector. After a Pilot Scheme of providing credit to Small Scale sector implemented in the State Bank of India, Government provided for the supply of credit under priority sector lending of the commercial Banks. The private Banks were not enthusiastic in the financing of Small Scale industries while the directive applied to the Nationalised Banks. Later on separate financing agencies like SIDBI were established. But their inadequacy to take care of the full requirements of credit was not clearly perceived. There should be one separate (full fledged) SIDBI for each of the four zones of India.

Sick Units: Sickness in Small-scale sector is always a matter of debate. Large number of units is sick with little scope for improvement in the near future. Although industrial sickness is not peculiar to India alone, approach to sickness in advanced countries is different from what is being done in India. The number of sick units in the SSI sector increased from about 2.2 lakh units in 1991 to 2.6 lakh in 1995 and declined to about 2.2 lakh by 1998. This is against an increase in the total number of SSI units from 19 lakh units to more than 34 lakh units during 1991-2001.

Reasons for the Slow Growth of Entrepreneurship: There are certain factors which either support the growth of entrepreneurship or act as barriers to the growth of entrepreneurship. The main reasons for the slow growth of entrepreneurship could be economic and non-economic.

Economic:

- Capital
- Labour
- Raw Material

Non-Economic

- Social
- Personal

13.5 ECONOMIC-BARRIERS:

- **Capital:** Capital is the most important prerequisite for setting up the new enterprise. Capital is a lubricant to the process of production. Money is the resource that helps mobilise other resources like men, materials and machines. Entrepreneurship in any society increases with the increase in the supply of capital. Thus, lack of availability of capital with any society or nation acts as a serious barrier for promoting entrepreneurship in the society.

- **Labour:** Cheap labour of a developing country may prima facie appear to be strength in promoting enterprises, but the fact is that cheap

labour is often unproductive or has a low level of productivity. This unskilled and low productive labour acts as a barrier in setting up the modern enterprises. However, by using labour saving innovations, the innovative entrepreneurs have been able to overcome the disadvantage of high cost labour in developed economies.

- **Raw Material:** In the absence of raw material no enterprise can be established and in the absence of enterprises the entrepreneurs do not emerge. The lack of raw materials is normally the greatest economic barrier for growth of entrepreneurship. Japanese society has been able to overcome the problem of lack of raw material through innovative management systems.

Non-Economic Barriers: A large number of sociological and psychological factors act as non economic barriers. Many societies and regions endowed with skilled labour and natural raw material have remained entrepreneurial backward because of such factors. The factors which prevent the emergence of entrepreneurs can be classified as environmental and personal barriers. The environmental barriers are rooted deep in the society and are also known as societal barriers.

- **Cultural Block/Social Block:** People are bound by their cultural values. Every society lays down some unwritten norms of acceptable behaviour. All members of that society are required to follow these norms. If such norms are broken, the society does not approve of the resultant behaviour and exerts direct and indirect pressure on the individual to conform to a particular way, purely because it is customary. Ground rules of social behaviour are learnt from the parents at a very early age.

Practical Values: Most of progressive societies, discourage day dreaming, playfulness and fantasy by their adult members. Such behaviour is considered childish and unsuitable for grown up persons. The adults are required to be functional in their thinking.

Emotional Block: Entrepreneurs often face emotional risk besides financial risk. Every entrepreneur runs a risk of making mistakes and incurring losses in his venture. People usually understand two situations i.e., either a person is right or wrong. Throughout one's life one is trying to find right answers to the problems and avoid the wrong solutions. Right answer is considered synonymous to success and being wrong is considered as failure. A fear of being wrong leads one to construct elaborate justification for own judgments and actions.

At work, people use a number of productive tools like sales forecast, market research, budgets etc., so that in case of failure their decisions are perceived as rational. In case the decision proves to be wrong one can defend it by claiming that high level of prudence was exercised. People are afraid of not only making mistakes but more so appearing foolish because of such mistakes. This emotional fear is the barrier to entrepreneurship.

- **Personal Barriers:** In a give environment few people are involved in entrepreneurship. Even among the societies which are considered entrepreneurially progressive only selected few set up their own enterprises. This indicates that personal barriers prevent people from launching their enterprises.

The following factors act as a personal barrier to entrepreneurship development:

- **Lack of Sustained Motivation:** Most people enjoy initiating a new product. People generally have a need for new experiences and involvements. Being a part of new development raised their status need. They appreciate the idea of being a part of something new. Thus, it is easy to attain a high level of commitment, enthusiasm and motivation at the initiation stage of an enterprise. However, when the project is off the ground or faces first obstacle the initial level of interest gradually wanes off. The entrepreneurship requires a sustained level of motivation and commitment and it is often difficult to sustain this motivation against the initial hurdles.
- **Difficulty and Ambiguity:** Some people are very compulsive and become upset if the order of their physical life is disturbed. Such people prefer every thing to be at its right place. This is also true to mental processes and in certain cases ability to create a new structure or sequence may also be impaired because of lack of orderliness. Although orderliness provides the advantage of aesthetics and functionality, yet it is important to have an ability to cope with asymmetry. When a new method of working is initiated, it is not possible to foresee every eventuality and predict the exact outcome. Some of the things can not be simulated and have to be tested only by experience. In many situations the data collected will be hazy or imperfect and ultimate decisions will be based upon opinion and value judgments. People who excessively depend on order will find it a hindrance. Entrepreneurs do need an ability to bring order to chaos and their first requirement is “to be able to tolerate chaos”.
- **Inability of Dream and Use Subconscious:** It is general experience that when a deadline is fixed for an assignment, the initial progress is slow and gains pace when the last minute approaches. Most people do their best work immediately prior to the final deadline as they allocated enough time in the early stages of the assignment to store up the information in their sub conscious. That is why when one faces a difficult problem, one is advised to ‘sleep on it’. This recognises the power of subconscious, the under used part of one’s intellect. The entrepreneur needs to use both parts of his intellect, the sub-conscious for incubation of ideas and conscious for resolution of problems.
- **Impatience in Solving Problems:** When people face difficult problems generally they grab the first available solution and try to implement the same. People sometimes act so because of their emotional insecurity or with a view of hiding their incompetence. As a result emotional insecurity or with a view of hiding their incompetence. As a

result only the most important aspect of the problem is addressed that too inefficiently by an inadequate and unimaginative solution and the rest of the problem remain unattended. This solution mostly lacks imagination, creativity, enterprise and is normally less sustainable.

The entrepreneur has to find more creative, imaginative and sustainable solutions. Thus, setting up an enterprise needs a lot of patience and an eye for details by the entrepreneur.

- **Lack of Clear Perception:** An entrepreneur is one who can easily identify an opportunity and exploit it for commercial gain. Most people will agree that a number of times they have failed in seeing an opportunity or an obvious solution to a problem. When the opportunity is exploited by others, they realise how their perception was based in some way or the other. Normally one, is swayed by irrational prejudice and try to impose one's preconceived ideas as a solution. This behaviour is a major barrier to entrepreneurship.

Future of Entrepreneurship: Even before the introduction of Economic Reforms in 1991 following the inevitable globalisation, SSI sector was somewhat over protected. Subsidised industrial shed rent, subsidisation of electricity rates; interest rate and reservations, which were considered very essential at the initial stages, became more or less, a permanent feature. The hope that the 'infant' would grow into an adult who could be freed to face competition proved a misconception. The small industry refused to grow into medium and large scale just because they would loose the benefits of protection. Such an approach in the SSI sector has caused a crisis. They continued to manage with the same machinery and technology resulting in high cost of production and low labour productivity. The other is the increasing incidence of sickness, which created the problem of growing unemployment and labour going without any social security. With globalisation, they are now more exposed to severe competition both from large-scale sector, domestic, foreign and from the MNCs. A number of problems have confronted the SSI sector following the WTO commitment.

Entrepreneur is responsible for sound economic growth, he is the key to the creation of new enterprises which energizes the economy and thus provides a suitable structure for economic development. The process of development includes creation of infrastructure and setting up of new business units.

The entrepreneur can identify opportunities to start a business either as a manufacturer or as a distributor, for entrepreneurship exists in every field of economic endeavour. Manufacturing activities require a relatively high capital investment and a greater degree of entrepreneurial abilities than distribution activities. Entrepreneurship has also been developed in the trading sector. Britain, for example, has developed trading entrepreneurship while Germany and Japan have developed industrial entrepreneurship. A manufacturing entrepreneur demonstrates his entrepreneurial talents by bringing out one products while a trading

entrepreneur performs his entrepreneurial functions in creating demand for the business in which he deals.

Though India is considered as one of the important industrialised nations, it is still considered as an agricultural country, where agricultural activities predominate like any other developing country and majority of the population depends on agriculture for their livelihood. As everyone knows Industrialisation is a sine-quinine of economic progress and it is one of the important means to improve the economy, and is the only remedy to economic backwardness.

The industrialisation is an effective instrument of growth and welfare. This depends on the entrepreneurial development, as the industrial entrepreneur is the backbone of economy. Entrepreneurs are viewed as kingpins of business, not merely because they are willing to trade for a profit, but they are the right exploiters of available resources in the right manner at the right time, at the right place using the right opportunity, thus in the process create more goods, employment and growth of national income.

The entrepreneur contributes to the economic development with the following services.

- Entrepreneur introduces new commodities in the market, new methods in the organisation, finds out new sources of raw materials for production and novel methods of marketing.
- Entrepreneur is responsible for industrial development in the country by taking risk. He causes for balanced industrial development all over the country.
- He is responsible for equal distribution of income and wealth.
- He provides vast employment opportunities in the society; solves the problem of unemployment and wide employment.
- He is responsible for increase in the per capita income of the citizens; Also increase in the standard of living of the people.
- He produces a wide variety of consumer and industrial goods useful to the society.
- He helps in Foreign Exchange inflow through export earnings.
- He is responsible in creating competition and thereby providing the commodities at affordable prices.

13.6 QUESTIONS

1. What are the major problems faced by Small Scale Industries in India?
2. What are the problems of marketing in small scale industry? Explain important measures adopted by Government to solve these problems.
3. What are the problems faced by SSI in India? Suggest measures to resolve them.
4. Give an account of women entrepreneurs in India. What are the problems faced by women entrepreneurs?
5. Describe the role and functions of women entrepreneurs. What hinders their growth?
6. Define Entrepreneurship and elaborate on its scope and role in developing economies in the 21st century. Mention the reasons for slow growth of entrepreneurship in India.



WOMEN ENTREPRENEURS

Unit Structure

- 14.1 Introduction
- 14.2 Importance of Women Entrepreneurship
- 14.3 Bank of India's Priyadarshini Yojana
- 14.4 Summary
- 14.5 Questions

14.1 INTRODUCTION

If a business organisation is started by a woman or group of women it comes in the category of women entrepreneurs. The Government of India has given a different and broader definition to the concept wherein they have gone by majority level of equity participation and employment of women. *A women entrepreneur is defined as an enterprise owned and controlled by women having a minimum financial interest of 51% of the capital and giving at least 51% of employment generated in the enterprise to women.*

Women entrepreneurs are those women who think of a business enterprise, initiate it, coordinate for production, sales and financial management and face risks and benefits of running a business organisation.

Due to growth of educational level, professional education, industrialisation, urbanisation and democratic values awareness the tradition bound Indian Society is now undergoing a change and women are coming out more freely to take challenges and face risks of entrepreneurship. However this does not mean women entrepreneurship is growing big. The situation only tells that there is change in thinking and some women feel that an enterprise and a home together can be managed by a woman. This seems more realistic for women in the age group of 35-50 years, as they have settled in married life and is comparatively free. Modern amenities and servant's usage help them to save time from kitchen and household work.

In the advanced countries of the world, there has been a phenomenal increase in the number of self-employed women after second world war. In the United States, women own 25% of all business, even though their sales on an average are less than 2/5th of those of others small business.

14.2 IMPORTANCE OF WOMEN ENTREPRENEURSHIP:

The importance of a woman entrepreneur are as follows:

- **Adequate Knowledge:** A women entrepreneur is considered more serious about her business. She must have thorough knowledge of market conditions, latest technological developments and other related economic conditions. Every entrepreneur must have adequate knowledge about the business.
- **Decisiveness:** No study support the hypothesis that the male possess better decision making ability than the women have quick decision-making ability which is an inherent characteristic of a successful entrepreneur. The entrepreneur has to take numerous decisions is quick succession. Male entrepreneurs generally show a strong power of decisiveness while women lack in decisiveness.
- **Innovative:** An important characteristic of a successful entrepreneur is innovativeness. A woman with innovative behaviour has better chance of success than those who lack it.
- **Business Morality:** An entrepreneur in the real sense of the term is not concerned with profit alone. She also takes into consideration needs of the society and tries to improve the standard of living of the people. She does not adopt unethical trade practices.
- **Self-Confidence:** Self-confidence is an essential characteristic of a successful entrepreneur. She should take every step with self confidence and firm conviction. She should believe in her own capacity to influence the environment. Successful entrepreneurs believe that they can shape their own destiny but women generally lack in self confidence.
- **Patience:** Another important characteristic of a successful entrepreneur is her behaviour in meeting odd situations. A person, with patience can struggle hard and can revive even a closed business while a person without patience will feel frustrated and loose interest in his business.
- **Other Personal Qualities:** A successful entrepreneur should be tactful. She should have charming personality. She should be frank and must possess persuasive power. She should sympathies with her workers and employees. All these personal qualities would lead her to success in business.

Problems Faced by Women Entrepreneurs: There are several problems and limitations which prevent a large number of potential women entrepreneur form entering business.

- **Lack of Self Confidence:** Women entrepreneur lack self confidence called a 'negative self-image'. Women limit potential in a variety of ways because they lack confidence in their own abilities.

- **Dependence Thinking:** A negative self image of female entrepreneur is reflection of the socialisation to dependable. They depend more on family group. They care more for their own image. The feelings to project self image perpetuates the dependent state.
- **Decision Making:** Women entrepreneurs do not show confidence in themselves, so they do not make desired action and postpone their decisions. This come in their way to success.
- **Risk-Taking:** Women entrepreneurs avoid taking risk, Women, from the time are toddlers, are screened from exposure and protected form risk-taking. Women are protected from exposure, and are also discouraged from taking risks, and are not held responsible for the results of their actions.
- **Goal Setting:** Another problem before women from becoming entrepreneurs is goal-setting. Women respond on demand and measure their work as a reflection in the eye of others. They are encouraged to be supportive of others. Women react rather than plan; and they do not care to set goals, This lack of goal setting and planning causes uncertainties which is the major problem of women entrepreneurs.
- **Narrow View:** Women live in short, discrete time cycles. They seem to concentrate all their energies in those short, discrete cycles, Entrepreneurs need long-range as well as short-range time perspectives. Women's orientations tend to be short, discreet intervals rather than continuous. This time frame perspective is a limiting factor for successful women entrepreneur.

Women can be taught to recognise and assess risk in decision making. Women who engage in goal setting, planning and preparation of business plans and policies must be willing not only to risk but to assume that responsibilities that are associated with choice. As women entrepreneur begin to achieve, they begin to build confidence in themselves as they begin to overcome, the psychological barrier of low self-confidence, they begin to expand and maximize their potential to make major contributions to organization.

Role, Scope and Opportunities for Women Entrepreneurs: The areas chosen by women are retail trade, restaurants, hotels, education, cultural, cleaning, insurance, readymade garments.

The following are the main reasons for entry of women entrepreneurs:

- **Economic Needs:** It is observed that this motive is most dominant, specially, in low income group where about 82% of women consider it as the prime motive because of obvious reasons. Approximately, 25% of women entrepreneurs from middle income group also have this as a motive.

- **Utilisation of own Experience and Technical Education:** Amongst the women entrepreneurs, with education in Science and Technology, this is the dominant motive for 75%, while among others it plays a minor role.
- **Husband's/Family's Interest & Support:** This is the reason why 50% of women come forward to become entrepreneurs. In case of unmarried women, the family interest is observed in 18% of cases.
- **Availability of Free Time and Finance:** About 60% of the housewife-turned-entrepreneurs feel that their children had grown up and they have free time which prompts them to start their business ventures. Amongst the women of higher middle class, this motive is stronger, as apart from free time, money is also available with them.
- **Personal Ego and Satisfaction:** This motive is present in more qualified women as well as those from higher middle class. Women's ego is often the reason to become an entrepreneur as they want to do things on their own. Some of them also feel as to why their husbands should bear their burden. Thus, it is basically their sense of independence that motivates them towards entrepreneurship. Presently over 60% of women entrepreneurs, other than those from low income group, are coming from graduate and post graduation level. Half of these women have nil or negligible work experience. Most of them are housewives converting to entrepreneurs. This profile of women entrepreneurs alongwith certain constraints, special to women due to our socio cultural environment, after the opportunities available to women for business.

Today we find women in different types of industries, traditional as well as non-traditional, such as engineering, electronics, readymade garments, fabrics, eatables, handicrafts, doll-making, poultry, plastics, soap, ceramics, printing, toy making, nurseries, creches, drugs, textile designing, dairy, canning, knitting, jewellery design, solar cooker etc. What motivates women to aspire for a career in business is an interesting thing to explore and analyse. According to Mclelland and Winter, motivation is a critical factor that leads one towards entrepreneurship. This apart, the challenge and adventure to do something new, liking for business and wanting to have an independent occupation are some of the attractive leverage for women. These factors indicate a relatively deeper commitment to entrepreneurial profession on the part of entrepreneur. Responsibility thrust, due to death or incapacitation of a near relation, tax benefit for self and for relations are the push factors. In addition, special qualifications attained for running a concern, identifying the demand from the market, external motivation, employment to needy and destitute to set up an ancillary unit, business already in the family are some of the factors which gave stimulus to women entrepreneurs to start business.

Schemes for Women Entrepreneurs:

The integrated schemes of assistance to women entrepreneurs which provide for identification, selection, training and consultancy and escort services apart from term loan facilities on concessional terms continue to

receive increasing response. As a result, assistance to women entrepreneurs is increasing day-by-day. Some of the schemes introduced to provide financial assistance to women entrepreneurs are briefly summarised.

SIDBI's Scheme of Assistance for Women Entrepreneurs:

The Small Industry Development Bank of India (SIDBI) has special schemes for financial and managerial assistance for women entrepreneurs.

These are aimed at providing:

- Training and extension servicing support to women entrepreneurs according to their skills and socio-economic status.
- Financial assistance on concessional terms to enable them to set up industrial units in the small scale sector.

The schemes are opened through State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), Commercial Banks, State Cooperative Banks and Regional Rural Banks, SIDBI refinance these institutions to the extent of the assistance they provide. For instance, the Maharashtra State Financial Corporation (MSFC) provides assistance in the form of term loans for which the entrepreneur is expected to contribute at least 15% of the project cost. A minimum debt equity ratio of 3:1 has to be maintained. The entrepreneur has to repay the loan over eight years, including an initial moratorium period of two years.

14.3 BANK OF INDIA'S PRIYADARSHINI YOJANA:

Under this scheme the bank provides long term and working capital assistance under the following categories.

- Professional and self employed. E.g. chartered accountants, lawyers and doctors.
- Small Business e.g. beauty parlour, laundry and circulating library.
- Retail traders e.g. fair price shops, general provision stores.
- Village or Cottage and Small Scale Industry Road Transport operators e.g. auto rickshaws, taxis.
- Allied agricultural activity.

The maximum loan amounts sanctioned depend on the entrepreneur needs with limits of upto Rs. 2 lakh for term loans and up to Rs. 1 lakh for working capital. Interest rates depend upon the quantum of loan and range from 12% (For loans upto Rs. 2 lakh). Repayment schedules are fixed after taking into account the expected surplus income and normally span a period of three to five years. The assets acquired with bank finance will need to be hypothecated to the bank as security. The entrepreneurs'

contribution margin will be about 20%, depending upon the type of activity intended to be undertaken.

In addition, women entrepreneurs are also eligible for finance under the following government sponsored programmes where capital subsidy is available and the rate of interest is very low.

Prime Minister's Rozgar Yojana (PMRY).

Self Employment Programme for Urban Poor (SEPUP).

Integrated Rural Development Programme (IRDP).

Scheme of Interest Subsidy for Women Entrepreneurs:

The main objective of the scheme of interest subsidy for Women Entrepreneurs is to provide incentives to the women with business acumen and entrepreneurial traits.

All industrial projects whether in rural, cottage, tiny, small and medium scale (i.e. with capital cost upto Rs. 3 crore) sectors, if set up by women entrepreneur(s) will be covered under the scheme. The scheme shall be operated through the State Financial Corporations (SFCs) / State level Financial Institutions granting assistance to women entrepreneurs for setting up their industrial ventures in the rural, cottage, tiny, small and medium scale sector.

To be eligible for availing herself of the subsidy under the scheme, a woman entrepreneur should fulfill the following criteria :

- The woman entrepreneur should have undergone a full course of EDP in the specified agency for the purpose of the scheme.
- The woman entrepreneur should be unemployed before taking up the industrial venture.
- The venture should be her first venture.
- The women entrepreneur must have been sanctioned and disbursed financial assistance by SFC or a State level financial institution.

The assistance under the scheme takes the form of one time subsidy and is equivalent to the amount of interest payable by the industrial unit set up by the women entrepreneur to the SFC or the State level financial institutions for the loan assistance sanctioned for the project for a period of one year, subject to a ceiling of Rs. 25000 per annum.

In addition to the above there are several schemes offered by various state government and state level agencies.

14.4 SUMMARY

Women as entrepreneur are considered as a special case even though, we have lakhs of women who are well qualified, professionally qualified,

competent and capable of becoming entrepreneurs. Even they have all the capabilities to become CEOs and Directors of large size corporates. In spite of this we have very few women entrepreneurs in our country. The main barriers are (a) role of motherhood and family responsibility, (b) socio-cultural and traditional values, (c) inability to cope up with tension and pressure of entrepreneurship and (d) family restrictions. That many young women now work in odd hours at ITES and BPO itself can be considered as an enterprising activity.

14.5 QUESTIONS

1. Explain the problems of women entrepreneurs at present in India. Give examples.
2. Discuss functions performed by women entrepreneurs. Suggest how women entrepreneurs can be developed. Which are businesses that are suitable for women entrepreneurs.
3. Give reasons for growing awareness throughout world to develop women entrepreneurs.
4. Define women entrepreneur. Explain the problems and remedies to solve the problems faced by women entrepreneur.
5. “Women entrepreneurs is a separate category and needs a special treatment” in the light of the above statement describe the role, scope and opportunities for women entrepreneurs in India.



CASE STUDIES

1. Case Study:

Dr. Verghese (born 1921) 'Father of India's white revolution' is a synonym for cooperative milk sector. Dr. Kurien started Amul India at Anand Gujarat with his cooperative movement. The brain behind operation Flood. Chairman, NDDB Unit 1981, Dr. Kurien was honoured with World Food Prize in 1989, Magsaysay award 1963 and Padmavibhushan from GOI.

Dr. Kurien started Amul experiment without any capital base. He identified himself with the villagers in Kaira district of Gujarat and started a new experiment in collection of milk from villagers, testing, storage and distribution. He worked on the principle of equitable distribution of the gains of the venture and a process of leaning for all who were involved. He was also responsible for development of the surrounding villages, bringing in new technologies from various sources in dairying, health of animals, animal husbandry and feeds. Dr. Kurien also arranged pasteurization, making butter, ghee, other products of milk with better and faster transport facilities for the milk. The experiment got stage by state successes leading to availability of milk and milk products to large parts of Gujarat and Mumbai and in addition, providing gainful employment and all round prosperity to the farmers in Gujarat. The innovative ways of handling this unique project was the brain child of Dr. Kurien. Dr. Kurien is known for his frankness and result oriented approach in all his projects as well as in his personal life.

Operation Flood an ambitious nationwide dairy development project which helped an estimated 10 million families.

- Helped India become the largest producer of milk at the time when children were undernourished because of lack of milk.
- Milk was scarce in urban areas while in rural areas milk producers could not make a decent living Distribution was a key problem, there were also various vested interests, lack of information and infrastructure. Anand's Kaira Milk Co-operative showed how problems could be tackled.
- The White Revolution found a way to provide cheap milk for undernourished children in the Mumbai area and Gujarat, and later all-over India. The technique and technologies used were then copied by others.
- Professional management, teaching farmers to use quality equipment, innovative processes meant the professionalisation of farming.

- Dr. Kurien's philosophy was simple put power in the hands of the people.
- Empowering the masses and initiating constructive social change in rural areas from building 'milk roads' to participating in elections.

Questions

1. What are entrepreneurship qualities of Dr. Kurien?

2. Case Study:

A small group of uneducated started a new venture of carrying tiffin boxes in Mumbai to office going people. The 'tiffinwallas' as they are commonly called in Mumbai is a household name for good reliable service. It has become a profit making industry and has grown over the years.

The Mumbai Tiffinwallas are international figures now thanks to Forbes Global. The Forbes story details the efficiency with which they deliver the tiffins to their customers. Around 5,000 tiffinwallas deliver 1,75,000 lunch Boxes everyday and take empty back. They make ONE mistake in 1 month. This means there is one error on every million transactions (or 8 million deliveries of lunches). This is thus a Six Sigma performance (a term used in quality assurance — if the percentage of correctness is 99.999999—6 mines or more). That is within defect rate 3.4 in a million operations the performance which has made companies like Motorola world famous for their quality. Mumbai tiffinwallas have achieved a level of service to which Western Businesses can only aspire. "Efficient Organisation" is not the first thought that comes to mind in India, but when the profit motive is given free reign, anything is possible. To appreciate Indian efficiency at its bet, watch the tiffinwallas at work. These are the men who deliver 1,75,000 lunches (or tiffins) each day to offices and schools throughout Mumbai, the business capital of India. Lunch is in a container consisting of a number of bowls, each containing a separate dish, held together in a frame.

The meals are prepared in the homes of the people who commute into Mumbai each morning and delivered in their own tiffin carriers. After lunch the process is reversed. And what a process— in its complexity, the 5,000 tiffinwallas make a mistake only above once every two months, according to Raghunath Medge, President of the Mumbai Tiffinmen's Association. That's one error in every 8 million deliveries or 16 million if you include the return trip. "If we make 10 mistakes a month, no one would use our services, say the craggily handsome Medge. how do they do it? The meals are picked up and delivered home before the commuters return. Each tiffin carrier is, painted on its top, a number of symbols like square, rounds, triangles of different colour which identify where the carrier was picked up, the originating and destination stations and the address to which it is to be delivered.

After the tiffin carriers are picked up, they are taken to the nearest railway station, where they are sorted according to the destination station. Between 10.15 a.m. and 10.45 a.m. they are loaded in crates into the baggage cars of trains. At the destination station they are loaded in crates into the baggage cars of trains. At the destination station they are unloaded by other tiffinwallas and re-sorted, this time according to the street address and floor. The 100 kgs crates of carriers, carried on tiffinwallas heads, hand wagons and cycles are delivered on time at 12.30 p.m. picked up at 1.30 p.m. and returned where they came from. The charge for this extraordinary services is just Rs. 150 per month, enough for the tiffinwallas, who are mostly self-employed, to make a good living. After paying Rs. 60 per crate and Rs. 120 per man per month to the Western railway for transport, the average tiffinwalla clears about Rs. 3,250. Of the sum Rs. 10 goes to the tiffinmen's Association. It is a fruit of hard and demanding work of tiffinwallas. Coordination and minute to minute precious is the hallmark of the work, six days a week and all round the year. An eye on accuracy of work brings in the quality level. After minimal expenses, the rest of Rs. 50,000 a month that the association collects go to a charitable trust that feed the poor. Superb service and charity too. Can anyone ask for more?

Questions

1. Discuss volume of work involved in the job of Mumbai tiffin carrying
2. What are entrepreneurial qualities of 5,000 tiffinwallas?
3. How tiffinwallas got fame as six sigma level service providers?

3. Case Study:

Mrs. A. N. Sujata is the Managing Partner of Rama Machine Tools, an engineering firm established by her father in 1988. She has started a new firm Diamond Engineering Company dealing with machinery for coir and silk industry.

On the personal front Mrs. Sujata has been able to manage her household very successfully. She has received a lot of encouragement from her husband and he also lends a hand with the housework. They have a daughter who goes to school and spends the afternoon at her mother's office. When asked the reason for her success both at home and at work, she simply says that it is a matter of compromise.

Mrs. Sujata is fortunate in getting the assistance of her father. It was natural enough to follow in the footsteps of her father and get into the world of entrepreneurship. Immediately after she completed her schooling, she took up B.E. in Mechanical Engineering at a local college in Mumbai. When she passed out, she joined her father at Rama Machine Tools and was made Managing Partner. This brought a lot of problems because most of the staff at the factory did not like the idea of working for a women who was so young and inexperienced. Some of, the employees had been

working there for 20 years 'But this' did not faze her at all. She just decided to push harder and dealt with them with a firm hand.

After having worked at her father's firm she was still very keen on the idea of starting her own unit. She wanted to find out for herself if she could establish a separate unit with her academic credentials. Since she was trained as an engineer it was important that she do something with which she was familiar. So in 1982, after submitting her project report and getting a working capital loan. Diamond Engineering Company was established, by Mrs. Sujata as the Sole Proprietor manufacturing of coir and silk machinery.

The Engineering degree has proved to be useful to her in effectively managing her entrepreneurial career. But most of her practical experience is credited to her father's company under his guidance.

Initially, the employees did not like the idea of working for a women entrepreneur. They had the traditional idea of women being just housewives. This has been a common problem with several women entrepreneurs. But Mrs. Sujata overcame this problem very effectively and dealt with them with a firm hand, wherever needed.

In 1995 she had first hand experience of being confronted with a labour problem at her factory. They went on a strike demanding increments. They thought that since she was a women, they could easily gain an upper hand by intimidating her. But she proved them wrong and refused to be cowed down. The ongoing battle went to the courts and took two years. In the end, she managed to work out a successful compromise with them which was mutually satisfying.

Today they manufacture equipment and machinery which are used by the coir industry such as the extraction of coir fibres and the processing of these fibre. Fortunately for her, there is not much competition in this field as there are very few people in this business. The company also manufactures silk machinery which included reeling and twisting machines of silk threads.

The firm has been regularly supplying the machinery to several government agencies, DGS&D and the Coir Board. The Coir Board had recommended the name of this firm to Fiji and Nigeria for export. The firm supplies the machines to West Indies and Ghana. The firm has received orders from Kenya for the silk machinery.

Read the above case and answer the following questions:

1. Explain the entrepreneurial qualities of Mrs. Sujata
2. Discuss how Mrs. Sujata solved the problems of insubordination employees and labour strike.

